UPDATE

ON QUÉBEC'S
ECONOMIC AND FINANCIAL SITUATION

Fall
2013

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Québec

UPDATE

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Finances et Économie
Québec

Update on Québec's Economic and Financial Situation
Fall 2013

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UPDATE ON QUÉBEC'S ECONOMIC AND FINANCIAL SITUATION

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INTRODUCTION

The government is tabling today the *Update on Québec's Economic and Financial Situation*, which presents the changes that have occurred since the tabling of the March 2013 Update:

— the economic outlook;

— the government's financial situation;

— the Québec government's debt;

— the measures adopted to support employment, mainly through the new *Economic Policy: Putting Jobs First*.

The economic and financial forecasts presented in this document hinge on the latest data available, which indicate that economic growth is continuing, despite lower growth prospects for 2013.

For 2014, growth is expected to accelerate in Québec, as in Canada and the United States. In this respect, the government intends to pursue the implementation of *Economic Policy: Putting Jobs First* in order to support employment and accelerate economic growth.

The tabling of this document is in keeping with the government's commitment to make available to Quebecers complete information on the economic situation and public finances.[1]

[1] Unless otherwise indicated, this document hinges on data available as of November 15, 2013.

Section A

THE GOVERNMENT'S ECONOMIC AND FISCAL POLICY DIRECTIONS

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HIGHLIGHTS

The 2013-2014 Budget of November 2012 and the March 2013 *Economic and Financial Update* forecast a return to a balanced budget in 2013-2014. Since then, moderate growth in the Québec economy and the economies of its principal trading partners combined, in particular, with very low inflation has led to a significant revenue shortfall.

In this context, in particular, the attainment of fiscal balance this year could only be achieved by means of measures that would impede economic growth. The government has decided, instead, to responsibly delay for two years the attainment of this objective while maintaining rigorous control over program spending to attain the target adopted for 2013-2014.

A return to a balanced budget is anticipated starting in 2015-2016. The anticipated deficits are $2.5 billion in 2013-2014 and $1.75 billion in 2014-2015. The return to a balanced budget will be assured by:

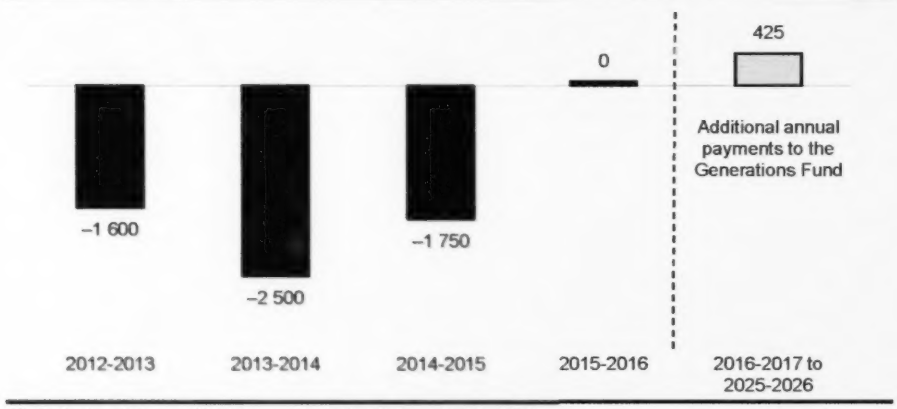
— ongoing rigorous expenditure control, without inhibiting economic growth;

— the implementation of *Economic Policy – Putting Jobs First* to foster job creation and accelerate economic growth.

Moreover, the government is maintaining its debt reduction objectives. To ensure the attainment by 2025-2026 of such objectives, the anticipated payments to the Generations Fund will be maintained from 2013-2014 to 2015-2016 and will increase starting in 2016-2017 to offset the impact on the debt of the additional deficits stemming from the two-year postponement of a return to a balanced budget.

CHART A.1

Budgetary balance[1] from 2012-2013 to 2015-2016 and additional payments to the Generations Fund starting in 2016-2017
(millions of dollars)



(1) Budgetary balance within the meaning of the *Balanced Budget Act*.

INTRODUCTION

This section of the November 2013 *Economic and Financial Update* provides an overview of the government's economic policies and budgetary guidelines. It presents:

— change in the economic situation;

— the fiscal position;

— guidelines to attain fiscal balance in 2015-2016;

— detailed adjustments to the financial framework;

— the government's five-year financial framework.

1. RECENT CHANGE IN THE ECONOMIC AND BUDGETARY SITUATION

1.1 Change in the economic situation

In 2013, Québec will experience economic growth that is more moderate than what was anticipated in the spring. Such growth will stand at 0.9%.

This moderate change in the Québec economy is similar to what has been observed among our trading partners, in particular Canada and the United States.

— Anticipated growth in the two economies will stand at 1.6% in 2013.

Moreover, economic activity has been accompanied by limited price rises, which has led to a significant downward adjustment in nominal gross domestic product (GDP), on which government revenues depend. In Québec:

— consumers have benefited from limited price rises to increase their savings rather than consumption;

— a significant fall in housing starts was observed, exacerbated by the adoption of the latest restraint measures announced by the federal government in 2012;

— a fall in corporate profits was noted, stemming at one and the same time from weaker prices and demand, both in Québec and in Canada, and elsewhere in the world.

However, the latest economic indicators reveal that growth is recovering. Acceleration is anticipated in 2014, when forecast growth in real GDP stands at 1.8%.

Lastly, it should be noted that Québec's standard of living has continued to improve. In 2014, per capita real GDP will be 2.7% higher than it was in 2007, which exceeds the performance of Canada and the United States in relation to the situation that prevailed prior to the last recession.

❑ Growth in Québec is similar to that in Canada and in the United States

Québec's economy is open to the world and, consequently, the global economic situation influences its development.

— Canada and the United States continue to be Québec's main trading partners. Their economic situation strongly influences the evolution of Québec's economy, although Québec has diversified its trade with Asia and Europe in recent years.

A slowdown in growth in the main North American economies is currently observed.

— In the United States as in Canada, economic growth will fall below 2% in 2013, the weakest pace recorded since the recession.

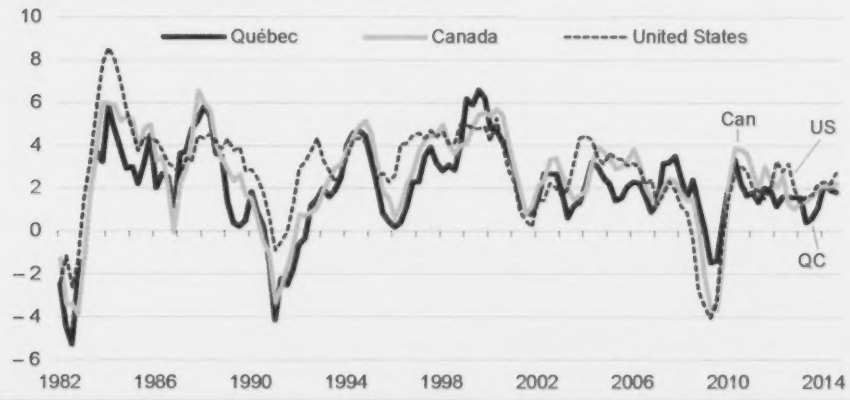
— Accordingly, the faltering economic growth observed since the beginning of the year in Québec reflects the situation observed among its major trading partners.

— The latest data point to more vigorous economic growth in 2014.

As the following chart indicates, the Québec economy has developed together with those of Canada and the United States over the past 30 years.

CHART A.2

Economic growth in Québec, Canada and the United States
(Real quarterly GDP, annual percentage change)



Sources: Statistics Canada, Institut de la statistique du Québec, IHS Global Insight and Ministère des Finances et de l'Économie du Québec.

❑ An economic situation that reflects sluggish global recovery since the recession

This situation reflects sluggish post-recession recovery in all of the advanced economies. At the international level:

— the impact of the latest financial crisis continues to affect the pace of growth in the advanced economies;

— the emerging countries, whose economies rely more extensively on exports, are suffering the after-effects of worldwide demand that is growing more slowly.

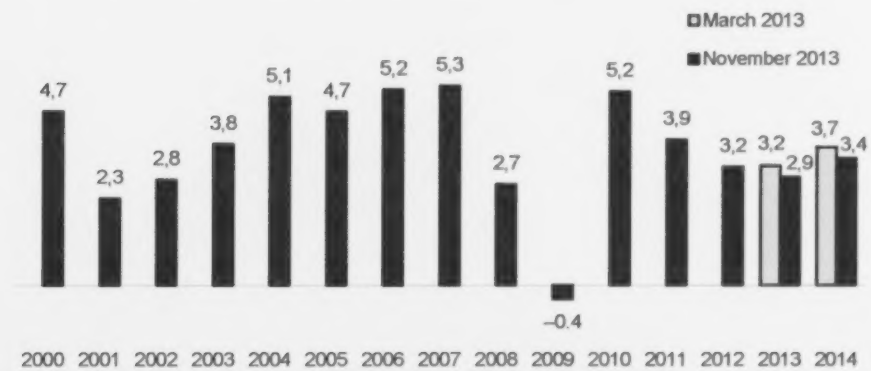
This has led to markedly slower global growth after the rebound recorded in 2010 at the end of the recession. Anticipated growth in the world economy stands at 2.9% in 2013 and 3.4% in 2014, a downward adjustment of 0.3 percentage point for each of the two years in relation to last spring's forecasts.

However, uncertainty should gradually dissipate as conditions improve worldwide, in particular with more robust growth in the private sector in the United States and the resumption of growth in the euro area.

— Such change will gradually revive catalysts for growth in Québec.

CHART A.3

Worldwide economic growth
(Real GDP in purchasing-power parity, percentage change)



Sources: IHS Global Insight, International Monetary Fund and Ministère des Finances et de l'Économie du Québec.

❑ Moderate economic growth in Québec in 2013 and the prospect of accelerated growth in 2014

After growing by 1.5% in 2012, growth in Québec's real GDP should stand at 0.9% in 2013, then accelerate to reach 1.8% in 2014.

Anticipated growth in 2013 falls short of what was forecast in March 2013.

— It marks a downward adjustment of 0.4 percentage point in 2013 in relation to the March 2013 forecast in order to take into account the international economic setting, which is lagging.

— For 2014, the forecast in the March 2013 Update is being maintained.

The adjustments are comparable to those made to the economic outlook in Canada and in the United States.

TABLE A.1

Economic growth in Québec, Canada and the United States – November 2013 forecasts
(real GDP, percentage change)

	2011	2012	2013	2014
Québec	**1.8**	**1.5**	**0.9**	**1.8**
– Difference in relation to March 2013	–0.1	0.5	–0.4	0.0
Canada	**2.5**	**1.7**	**1.6**	**2.1**
– Difference in relation to March 2013	–0.1	–0.1	–0.1	–0.1
United States	**1.8**	**2.8**	**1.6**	**2.4**
– Difference in relation to March 2013	0.0	0.6	–0.2	–0.1

Sources: Institut de la statistique du Québec, Statistics Canada, IHS Global Insight and Ministère des Finances et de l'Économie du Québec.

❑ Uneven growth in early 2013

Growth in the Québec economy zigzagged during the first six months of 2013.

— While growth during the first two months of 2013 met expectations, economic activity levelled off in the subsequent months.

— The contraction recorded in June stems essentially from the strike in the construction sector. An upturn in output followed in July 2013.

However, the most recent data nonetheless suggest a revival in growth in the second half of the year. Growth in the first eight months of 2013 stood at 1.1% in relation to the same period the previous year.

TABLE A.2

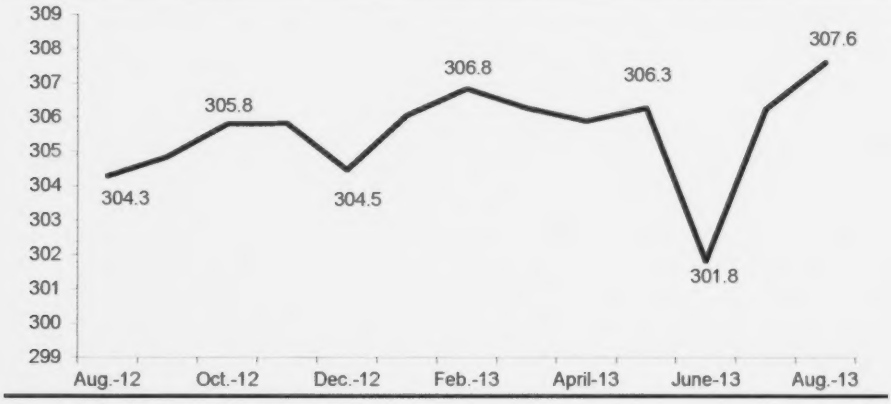
Change in economic growth in Québec
(billions of 2007 dollars)

	Jan.	Feb.	March	April	May	June[1]	July	August	Cumulative[2]
Output by industry	306.1	306.8	306.3	305.9	306.3	301.8	306.2	307.6	305.9
Change in relation to the preceding month (%)	0.5	0.3	–0.2	–0.1	0.1	–1.5	1.5	0.4	
Year-on-year change (%)	1.8	1.8	1.6	1.1	1.1	–0.4	0.4	1.1	1.1

Note: In this particular instance, this table includes data for August 2013 that became available after November 15, 2013. However, the data were not considered in the economic forecast.
(1) Impact of the construction strike.
(2) Average for the months available and growth in relation to the same period in 2012.
Source: Institut de la statistique du Québec.

CHART A.4

Québec's real GDP at basic prices
(billions of 2007 dollars)



Source: Institut de la statistique du Québec.

❑ Low inflation is adversely affecting the value of tax bases

The Québec economy, like most of the advanced economies, is changing against a backdrop of weak inflation.

— In the wake of a 2.1% increase in 2012, the consumer price index will rise by only 0.9% in 2013.

— Recent data on inflation reveal that prices have hardly budged in recent months.

Domestic demand, which is developing at a moderate pace, is exerting little pressure on prices. What is more, over-supply in North America and worldwide at a time when productive capacity outstrips output also explains limited price increases.

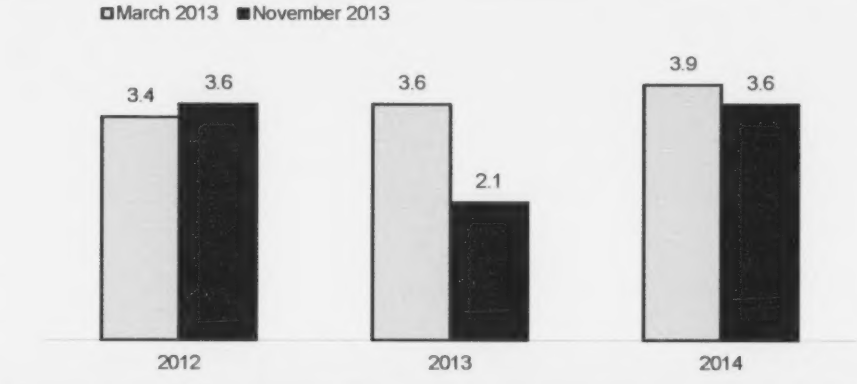
Accordingly, because prices have risen less than anticipated, the adjustments to nominal GDP are bigger than the adjustments to real GDP.

— For 2013, the forecast for nominal GDP has been lowered from 3.6% to 2.1%, equivalent to 1.5 percentage point below the March 2013 forecast.

— For 2014, growth in nominal GDP should reach 3.6%, a downward adjustment of 0.3 percentage point.

CHART A.5

Change in nominal GDP in Québec
(percentage change)



Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

■ Government revenues depend on change in nominal GDP

The adjustments to nominal GDP significantly affect government revenues and make it more difficult for the government to restore fiscal balance.

TABLE A.3

Québec's economic growth – November 2013 forecasts
(percentage change)

	2012	2013	2014
Real GDP	**1.5**	**0.9**	**1.8**
– Difference in relation to March 2013	0.5	–0.4	0.0
Nominal GDP	**3.6**	**2.1**	**3.6**
– Difference in relation to March 2013	0.2	–1.5	–0.3
Consumer price index	**2.1**	**0.9**	**1.8**
– Difference in relation to March 2013	0.0	–0.7	–0.1

Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

Moreover, weak prices are affecting a number of economic indicators that have an impact on growth in the government's tax bases.

TABLE A.4

Change in 2013 in certain economic indicators that affect government revenues
(percentage change, and difference in percentage points)

	March 2013 forecasts	November 2013 forecasts	Difference
Nominal consumption	3.4	2.8	–0.6
Housing starts	–12.6	–21.3	–8.7
Average weekly earnings	3.3	1.8	–1.5
Wages and salaries	3.5	2.9	–0.6
Net corporate operating surplus	4.9	–6.0	–10.9
Export prices	1.3	0.5	–0.8
Prices of raw materials[1]	–2.4	–20.4	–18.0

(1) Index of the prices of metals produced in Québec.
Sources: Institut de la statistique du Québec, Statistics Canada, Canada Housing and Mortgage Corporation and Ministère des Finances et de l'Économie du Québec.

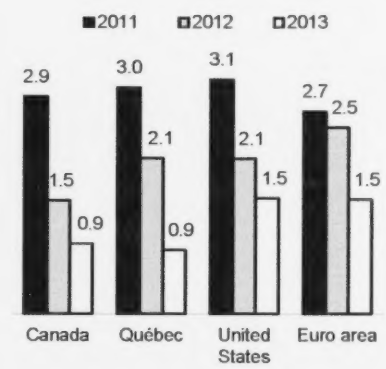
Strikingly weak inflation in several advanced economies

Since 2011, inflation in several of the advanced economies has fallen. While the inflation target of the central banks in Canada, the United States and the euro area is 2%, price increases were markedly lower in 2013. Several factors explain this weakness:

- the extent of unused productive capacity in the economies in question. According to the Organisation for Economic Co-operation and Development (OECD), the gap in output in relation to productive potential is still considerable;
  - The gap has increased in certain regions, increasing between 2011 and 2013 from –0.4% to –0.8% in Canada and from –1.3% to –3.8% in the euro area. In the United States, the gap in output in relation to productive potential fell only slightly, from –3.4% in 2009 to –3.0% in 2013.
- the abundance of consumer goods from the emerging countries such as China and sluggish worldwide demand are heightening competition on international markets.
  - This keen competition is limiting price increases by businesses, which are fighting to maintain their market share.
- unemployment remains high in a number of economies, including the euro area and the United States, which is limiting wage growth;
- downward pressure is apparent on the prices of several natural resources.

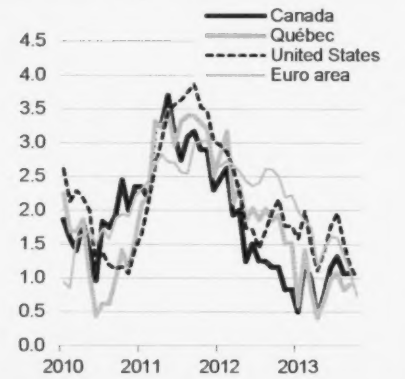
Low inflation is obliging certain central banks to prolong exceptional monetary economic support measures implemented during the recession and the subsequent slow recovery. Monetary policy in a number of advanced economies should thus remain accommodative for some time to come.

Annual headline inflation[1]
(annual percentage change)



(1) Cumulative data available for 2013 in relation to the same period in 2012.
Sources: Statistics Canada, Bureau of Labor Statistics and Eurostat.

Monthly headline inflation
(annual percentage change)



Sources: Statistics Canada, Bureau of Labor Statistics and Eurostat.

Sources: OECD, November 2013 *Economic Outlook* and Ministère des Finances et de l'Économie du Québec.

■ Some consumers are saving rather than spending

Québec consumers have benefited from limited price rises to increase their savings rather than consumption.

— Accordingly, the value of consumer spending should rise by 2.8% in 2013, below the 3.4% growth forecast last March and below the 2.9% observed in 2012.

— For the purpose of comparison, it rose 4.8% in 2010 and 4.0% in 2011.

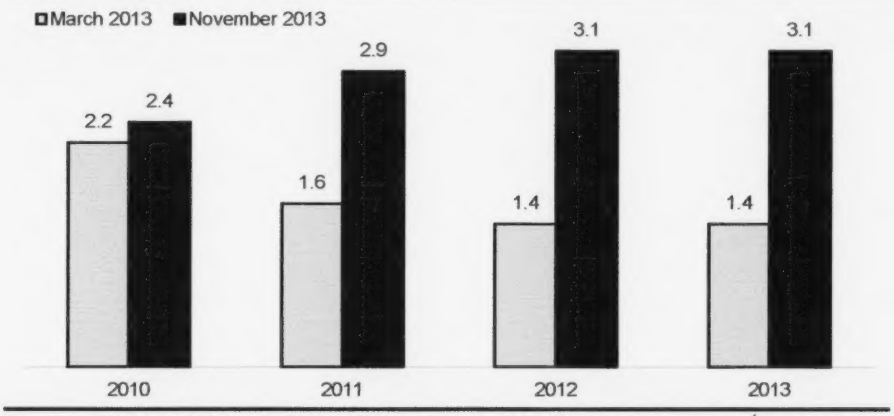
Against a backdrop of limited growth in consumption, Québec households have pursued the trend to save more that began several years ago.

— The savings rate of Québec households, which stood at 2.4% in 2010, will reach 3.1% in 2013.

— The 3.1% savings rate now anticipated for 2013 exceeds the 1.4% rate forecast in March and the rates measured prior to Statistics Canada's historic adjustments last October.

CHART A.6

Québec savings rate
(as a percentage)



Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

■ A significant decline in the residential sector is contributing to economic weakness

Activity in the residential sector has slowed markedly in Québec and in Canada since the second quarter of 2012. The downturn has been more striking since the implementation by the federal government of the latest restraint measures respecting the rules governing mortgage loans.

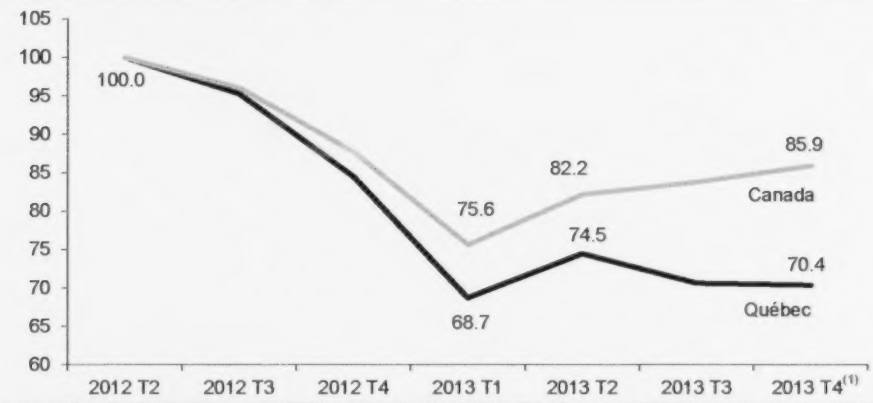
The bigger decline in housing starts in Québec, accompanied by the spill-over impact on consumption, partly explains sluggish economic growth in the first months of 2013.

— In the fourth quarter of 2013, housing starts declined by nearly 30% in Québec in relation to the second quarter of 2012, as against a 14.1% downturn in Canada.

— In 2013, residential investments will diminish by 4.3% in Québec, compared with a 1.5% downturn in Canada.

CHART A.7

Housing starts
(Index, 2nd quarter of 2012 = 100)



(1) Cumulative for the months available.

Sources: Canada Mortgage and Housing Corporation and Ministère des Finances et de l'Économie du Québec.

TABLE A.5

Recent measures governing borrowing conditions for insurable mortgage loans in Canada

Date of coming into force		Borrowing rules and conditions
2011	Maximum amortization period	35 to 30 years
	Maximum amount for mortgage refinancing	90% to 85%
2012	Maximum amortization period	30 to 25 years
	Maximum amount for mortgage refinancing	85% to 80%

Note: Compilation of the Ministère des Finances et de l'Économie du Québec

❑ Québec's standard of living is improving

Growth in Québec's real GDP per capita in relation to 2007, i.e. the situation that prevailed prior to the last recession, led to a more marked improvement in Quebecers' standard of living than among our main trading partners.

Accordingly, between 2007 and 2014, real GDP per capita should increase annually, on average, by:

— 0.4% in Québec;

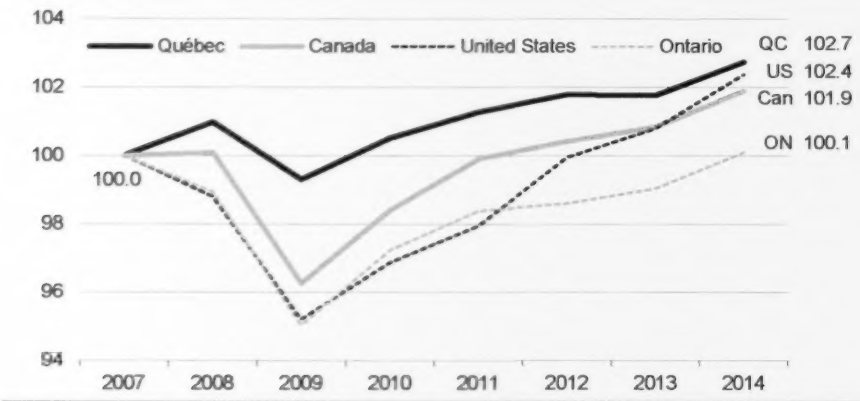
— 0.3% in Canada;

— 0.3% in the United States;

— 0.0% in Ontario.

CHART A.8

Real GDP per capita
(Index, 2007 = 100)



Sources: Institut de la statistique du Québec, Statistics Canada, Conference Board of Canada, IHS Global Insight and Ministère des Finances et de l'Économie du Québec.

❑ Employment continues to pick up in Québec

Growth in Québec's per capita real GDP stems, in particular, from broader participation in the labour market.

The employment rate, i.e. the number of individuals between 15 and 64 years of age who are employed or are actively seeking work, has risen considerably in Québec since 2007. Prior to the recession, this indicator revealed that Québec was lagging significantly. It now shows that Québec is outstripping Canada.

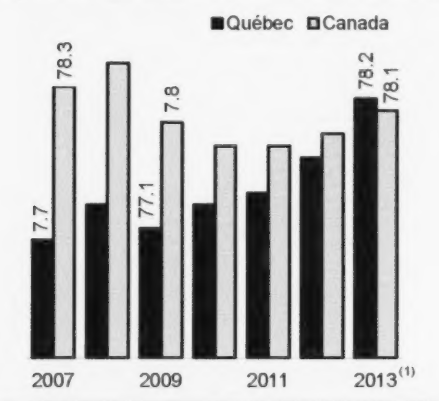
— Indeed, in 2007, the labour force participation rate for the population 15 to 64 years of age in Québec was 1.3 percentage points below the rate in Canada. In 2013, it exceeds by 0.1 percentage point the rate in Canada.

The gains made on the labour market are also significant as regards to the labour force participation rate, i.e. the number of individuals who are employed in the population 15 to 64 years of age.

— The difference in the rate in relation to Canada has virtually disappeared. It fell from 1.0 percentage point in 2009 to 0.3 percentage point in 2013.

CHART A.9

Labour force participation rate of the population 15 to 64 years of age
(as a percentage)

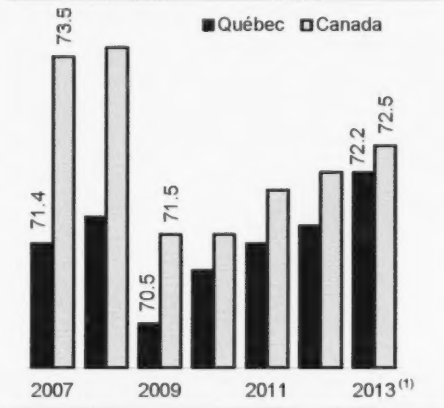


(1) Cumulative for the months available.

Sources: Statistics Canada and Ministère des Finances et de l'Économie du Québec.

CHART A.10

Employment rate of Quebecers between 15 and 64 years of age
(as a percentage)



(1) Cumulative for the months available.

Sources: Statistics Canada and Ministère des Finances et de l'Économie du Québec.

❑ The government is clearly committed to fostering economic growth

The government recently announced its *Economic Policy – Putting Jobs First,* an ambitious policy aimed at reviving the sources of growth on which economic activity in Québec hinges.

The policy will bolster the private sector's growth potential by helping businesses to diversify their products and find new markets through enhanced corporate competitiveness, innovation and exports.

■ Over 40 000 new jobs created

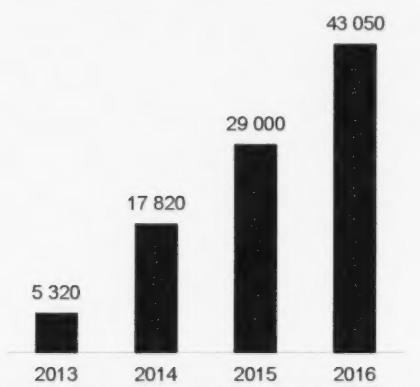
The investments planned in *Economic Policy – Putting Jobs First* will create quality jobs.

Starting in 2014, the *Economic Policy – Putting Jobs First* is expected to create over 12 000 jobs. By 2017, the number of new jobs created will stand at 43 050.

These jobs will add to the new jobs already anticipated for the same period. All told, the government forecasts the creation of 116 800 new jobs over the next three years.

CHART A.11

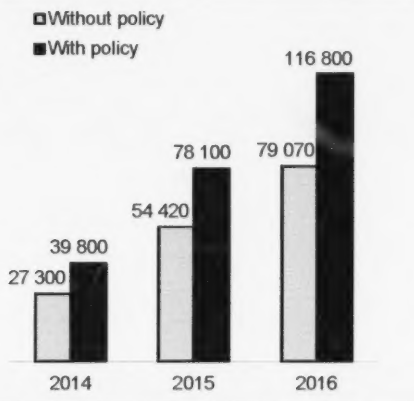
Impact of Québec's economic policy on job creation
(in units)



Source: Ministère des Finances et de l'Économie du Québec.

CHART A.12

Cumulative job creation in 2014-2016
(in units)



Source: Ministère des Finances et de l'Économie du Québec.

1.2 Change in the budgetary situation

Recent change in Québec's economic situation, marked by low inflation and faltering growth in early 2013, have significantly affected public finances. Since the March 2013 Update, unfavourable adjustments have been noted, mainly in government revenue, thereby creating a significant shortfall starting in 2013-2014.

Given the scope of the adjustments, the government is postponing a return to a balanced budget until 2015-2016. In this respect, the financial framework of November calls for:

— a $2.5-billion deficit in 2013-2014;

— a $1.75-billion deficit in 2014-2015;

— fiscal balance starting in 2015-2016.

Ongoing rigorous expenditure control, without inhibiting economic growth, will ensure a return to a balanced budget.

The additional deficits, which will be added to the debt, will total $4.25 billion. However, to avoid jeopardizing the attainment by 2025-2026 of its debt reduction targets, the government will maintain the payments to the Generations Fund from 2013-2014 to 2015-2016 and will increase them starting in 2016-2017.

The financial framework forecasts a shortfall of $400 million that will be offset when the 2014-2015 budget is tabled.

TABLE A.6

Summary of budgetary transactions – November 2013
(millions of dollars)

	2013-2014	2014-2015	2015-2016
BUDGETARY TRANSACTIONS			
Budgetary revenue	69 806	71 468	74 243
% change	*3.3*	*2.4*	*3.9*
Budgetary expenditure	–72 408	–73 785	–75 200
% change	*3.4*	*1.9*	*1.9*
Consolidated entities	1 171	1 463	1 818
Contingency reserves	—	—	–200
Shortfall to be offset	—	400	1 000
SURPLUS (DEFICIT)	**–1 431**	**–454**	**1 661**
BALANCED BUDGET ACT			
Payments of revenue dedicated to the Generations Fund	–1 069	–1 296	–1 661
BUDGETARY BALANCE[1]	**–2 500**	**–1 750**	**—**
As a % of GDP	***–0.7***	***–0.5***	**—**

(1) Budgetary balance within the meaning of the *Balanced Budget Act*.

Time frame for a return to a balanced budget of the provinces and the federal government

Québec is not the only jurisdiction that has to contend with a deficit. This is also true of several Canadian jurisdictions.

In 2009-2010, like Québec, the vast majority of the provinces, along with the federal government, established a time frame for a return to a balanced budget.

Several jurisdictions have revised this deadline since then.

- New Brunswick, Newfoundland and Labrador and Nova Scotia have until now postponed their deadlines by three or four years.
- In addition, in their 2013-2014 budgets, New Brunswick, Manitoba, Newfoundland and Labrador, Prince Edward Island and Alberta have postponed the return to a balanced budget.

Only three provinces anticipate a return to a balanced budget in less time than Québec does.

The Ontario government anticipates achieving fiscal balance in 2017-2018, i.e. within eight years.

Time frame for restoring fiscal balance

	Number of years anticipated to restore fiscal balance			Year in which fiscal balance is restored
	Initial	Revision	Total	
Nova Scotia	1	+3	4	2013-2014
British Columbia	2	+2	4	2013-2014
Alberta[1]	3	+2	5	2014-2015
Québec	**4**	**+2**	**6**	**2015-2016**
Federal government	4	+2	6	2015-2016
Prince Edward Island[2]	4	+2	6	2015-2016
Newfoundland and Labrador	2	+4	6	2015-2016
Manitoba[2]	5	+2	7	2016-2017
New Brunswick[3]	3	+4	7	2016-2017
Ontario	6	+2	8	2017-2018

Notes: The number of years anticipated to attain fiscal balance is calculated starting in 2009-2010, a recession year in which most Canadian jurisdictions recorded deficits.
Saskatchewan has not recorded a deficit since 2009-2010.

(1) Deficit budget balance before the use of the stabilization reserve.
(2) The number of years necessary to restore fiscal balance was announced in 2010-2011.
(3) A return to a balanced budget has been postponed to 2016-2017 at the earliest.

1.2.1 Actual results for 2012-2013

❑ Efforts totalling $1.5 billion

The results published in the *Public Accounts 2012-2013* indicate that the budgetary balance within the meaning of the *Balanced Budget Act* showed a deficit of $1.6 billion for fiscal year 2012-2013.

— This represents a difference of $100 million in relation to the anticipated objective.

As soon as the government came to power in September 2012, it noted a $1.6 billion budget deficit stemming from:

— $1 083 million in anticipated expenditure overruns;

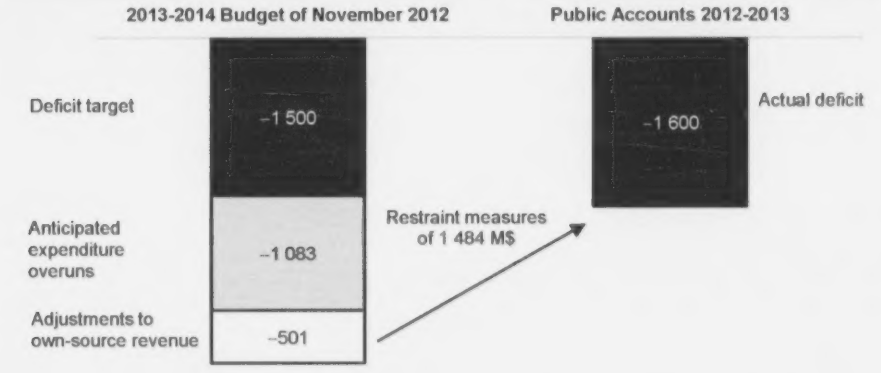
— a $501-million drop in own-source revenue.

During the year, the government adopted restraint measures totalling $1 484 million that not only eliminated the budget deficit but also attained the spending target set for 2012-2013.

— The government has achieved the best performance of the past 15 years from the standpoint of controlling expenditure. Indeed, program spending was $395 million lower than the level anticipated in the 2012-2013 Budget tabled in March 2012 and in the March 2013 *Update on Québec's Economic and Financial Situation*.

CHART A.13

Deficit and restraint measures since September 2012 for 2012-2013
(millions of dollars)



Note: Budgetary balance within the meaning of the *Balanced Budget Act*.

❑ Reduced revenues have been offset by spending cuts and improved performance by consolidated entities

For 2012-2013, the $1 086-million downward adjustment in budgetary revenue in relation to forecasts in the March 2013 Update is, by and large, attributable to own-source revenue excluding government enterprises adjusted downward by $1 206 million.

— This result reflects the less-dynamic-than-anticipated performance of the Québec economy in early 2013, i.e. at the end of the 2012-2013 fiscal year. The adjustments are partially offset by a $123-million increase in revenue from government enterprises, mainly attributable to Hydro-Québec's improved results.

Program spending was adjusted downward by $395 million to achieve growth of 1.2% in relation to 2011-2012, compared with 1.9% forecast in the March 2013 Update.

The net results of the consolidated entities were revised upward by $510 million compared with the March 2013 forecasts.

TABLE A.7

Adjustments to the budgetary balance for 2012-2013 since the March 2013 Update
(millions of dollars)

	2012-2013		
	March 2013 Update	**Adjustments**	**Actual results**
BUDGETARY TRANSACTIONS			
Own-source revenue	47 957	–1 206	46 751
Government enterprises	4 985	123	5 108
Federal transfers	15 710	–3	15 707
Total budgetary revenue	**68 652**	**–1 086**	**67 566**
Program spending	–62 642	395	–62 247
Debt service	–7 822	56	–7 766
Total budgetary expenditure	**–70 464**	**451**	**–70 013**
Consolidated entities			
Non-budget-funded bodies and special funds	462	338	800
Health and social services and education networks	–100	147	47
Generations Fund	936	25	961
Subtotal – Consolidated entities	**1 298**	**510**	**1 808**
Contingency reserves	–50	50	—
Extraordinary loss – Closure of Gentilly-2	–1 876	—	–1 876
SURPLUS (DEFICIT)	**–2 440**	**–75**	**–2 515**
BALANCED BUDGET ACT			
Payments of revenue dedicated to the Generations Fund	–936	–25	–961
Exclusion – Extraordinary loss	1 876	—	1 876
BUDGETARY BALANCE[1]	**–1 500**	**–100**	**–1 600**
As a % of GDP	***– 0.4***	**—**	***– 0.4***

(1) Budgetary balance within the meaning of the *Balanced Budget Act*.

1.2.2 Summary of adjustments to the financial framework

This section summarizes the adjustments to the financial framework for fiscal year 2013-2014 and subsequent years since the March 2013 *Economic and Financial Update*. The financial framework has, in particular, been modified by:

— adjustments related to the economy, which lead, in particular, to the drop in own-source revenue;

— the results of new actuarial valuations of the retirement plans of public and parapublic sector employees;

— the recognition of the cost of the new policies announced by the government, the initial $60 million in financial assistance announced in the summer of 2013 for the community of Lac-Mégantic, and adjustments to the consolidated entities;

— the measures adopted to return to a balanced budget.

In 2013-2014, the anticipated deficit of $2.5 billion corresponds to the downward adjustment of the government's own-source revenue. The other adjustments are offset by stringent spending control and the elimination of the contingency reserve.

The $1.75-billion deficit anticipated in 2014-2015 and fiscal balance in 2015-2016 hinge are based on continuing stringent spending control and the elimination and the reduction, respectively, of the contingency reserve for the two years.

TABLE A.8

Adjustments since the March 2013 Update
(millions of dollars)

	2013-2014	2014-2015	2015-2016
BUDGETARY BALANCE – MARCH 2013	—	—	—
Adjustments related to the economy			
Own-source revenue	–2 485	–2 777	–2 543
Federal transfers	194	248	368
Debt service	27	–35	–33
Subtotal	**–2 264**	**–2 564**	**–2 208**
New actuarial valuations of the retirement plans			
Program spending	–404	–394	–399
Debt service	–94	–109	–125
Subtotal	**–498**	**–503**	**–524**
Other adjustments			
Economic policy[1]	–33	–412	–404
Solidarity policy	—	–80	–89
Assistance to the community of Lac-Mégantic[2]	–60	—	—
Consolidated entities[3]	–330	484	533
Subtotal	**–423**	**–8**	**40**
Measures to return to a balanced budget.			
Expenditure control	485	1 055	1 922
Contingency reserves	200	300	200
Additional shortfall to be offset – November 2013	—	–30	570
BUDGETARY BALANCE – NOVEMBER 2013	**–2 500**	**–1 750**	**—**

(1) The amounts indicated correspond to the budgetary cost. Section E presents the impact on the economy.
(2) Amount granted in the summer of 2013, to which will be added, in particular, the cost of decontamination.
(3) The Generations Fund is excluded.

❑ The main reasons that explain the adjustments

■ Adjustments related to the economy

Recent change in the economy have led to:

— a downward adjustment in own-source revenue of $2 485 million in 2013-2014 and $2 777 million in 2014-2015 because of lower revenue recorded at the end of 2012-2013 and since the beginning of 2013-2014;

— an upward adjustment in debt service on the order of $30 million for 2014-2015 and 2015-2016.

Increased federal transfers stemming from the 2011 Statistics Canada Census population data have mitigated the deterioration in the financial framework.

■ Adjustments related to the new actuarial valuations of the retirement plans of public and parapublic sector employees

The results of the new actuarial valuations of the retirement plans of public and parapublic sector employees have led to a $400-million annual increase in program spending starting in 2013-2014.

Moreover, the interest expense on the retirement plans liability has been adjusted upward by nearly $100 million per year starting in 2013-2014.

Other adjustments to the financial framework

The other adjustments to the financial framework include:

— the cost of the measures announced in *Economic Policy – Putting Jobs First*;

— the cost of the measures announced in the solidarity policy;

— an initial $60 million in financial assistance announced in the summer of 2013 for the community of Lac-Mégantic. To such costs will be added, in particular, the cost of decontamination;

— the anticipated results of the consolidated entities, which include the results of non-budget-funded bodies and special funds, and those of the health and the education networks. In particular, the adjustments indicate that:

  — no additional tax will be allocated to the Fund to Finance Health and Social Services Institutions starting in 2014-2015 to fund expenditures of $430 million, an amount stipulated since the 2010-2011 Budget. The additional funding earmarked for healthcare in 2014-2015 will be determined when the Expenditure Budget is prepared.

Measures adopted to ensure a return to a balanced budget

To ensure a gradual return to fiscal balance, the government:

— plans to pursue rigorous expenditure control;

— intends to reduce the contingency reserves;

— anticipates that an additional gap on the order of $600 million will be absorbed in 2015-2016.

1.3 Key directions to achieve fiscal balance in 2015-2016

To ensure a return to a balanced budget in 2015-2016, the government is adopting a balanced and responsible approach.

— The scope of the initiatives to be taken to offset the adjustments to the financial framework starting in 2013-2014 and to attain fiscal balance at that time is too high to be achieved without impeding economic growth.

— For example, restraint measures on the order of $2.5 billion represent an impact of roughly 0.7% of Québec's GDP.

Accordingly, the government is postponing a return to a balanced budget and taking stock of its key directions and objectives from the standpoint of budgetary policy.

With the main objective of attaining fiscal balance and reducing the debt burden without hampering economic recovery, the government plans to:

— establish the anticipated deficit at $2.5 billion in 2013-2014, an amount equivalent to the adjustment in the government's own-source revenue, and maintain the anticipated program spending target;

— reduce the anticipated deficit in 2014-2015 and return to a balanced budget in 2015-2016 by pursuing rigorous expenditure control, without jeopardizing economic recovery;

— avoid recourse to general tax increases;

— increase, starting in 2016-2017, payments to the Generations Fund to fully offset the impact of additional deficits on the debt anticipated in 2013-2014 and in 2014-2015.

1.3.1 Establish the anticipated deficit in 2013-2014 at an amount equivalent to the adjustments to own-source revenue

The government is anticipating a deficit in 2013-2014 that will be limited to an amount equivalent to the adjustments in own-source revenue for the year, i.e. $2.5 billion.

Furthermore, the government is maintaining unchanged at $63 825 million its program spending target for 2013-2014.

The *Balanced Budget Act* will be amended by legislation that will act upon the implementation of the 2014-2015 Budget Speech to set the revised deficit targets.

The *Balanced Budget Act*

The National Assembly of Québec unanimously adopted the *Balanced Budget Act* (CQLR, chapter E 12.00001) on December 19, 1996. The Act stipulates that the government is obliged to present balanced budget forecasts and sets out the applicable rules when an overrun occurs.

In 2009, the *Act to amend the Balanced Budget Act and various legislative provisions concerning the implementation of the accounting reform* (S.Q. 2009, chapter 38) substantially amended the *Balanced Budget Act* in order, in particular, to incorporate specific provisions to enable the government to cope with the recession.

Accordingly, the provisions that prohibit a budget deficit did not apply from March 19, 2009 to March 31, 2013. The Act allows for the temporary suspension of the obligation to attain fiscal balance in 2009-2010 and 2010-2011, without having to offset the deficits by surpluses in subsequent years.

Furthermore, the Act stipulates that the government must abide by the declining budget deficit objectives that were set in the March 2011 Budget, i.e. $3 800 million in 2011-2012 and $1 500 million in 2012-2013. It also stipulates that balance between revenue and expenditure, established according to the government's accounting policies, must be achieved in 2013-2014.

If the government notes an overrun of less than $1 billion in relation to the declining budget deficit objectives of 2011-2012 and 2012-2013, or the fiscal balance objective for the subsequent fiscal years, it must attain the budgetary objective stipulated for the following fiscal year, adjusted by the amount of the overrun.

The Act stipulates that the government may incur overruns for a period of more than one year when such overruns total at least $1 billion because of circumstances specified in the Act, i.e. a catastrophe that significantly affects revenue and expenditure, an appreciable deterioration in economic conditions, or a modification to federal transfers to the provinces that would substantially reduce transfer payments paid to the government. The government must then apply an offsetting financial plan that ensures that overexpenditures are offset within a period of five years.

In the event of an overrun of at least $1 billion, the Minister of Finance and the Economy must report to the National Assembly on the circumstances that warrant the government's incurring such overruns. The Minister must also present a financial plan that offsets the overruns within the five-year period and apply at least $1 billion in offsetting measures in the fiscal year in which such an overrun is anticipated or in the subsequent year in the case of a recorded overexpenditure. The Minister must offset at least 75% of the overruns in the first four fiscal years in this period.

What is more, the Act now ensures that the accounting entries under net debt are considered in the calculation of the budgetary balance except when such entries result from modifications to the government's accounting policies or to the policies of one of its enterprises to bring them into line with a new standard of the Canadian Institute of Chartered Accountants.

Lastly, the Act stipulates that the Minister of Finance and the Economy must report to the National Assembly at the time of the Budget Speech on the objectives that the Act targets, the attainment of such objectives and, where applicable, the differences observed and the state of operations of the stabilization reserve.

1.3.2 Pursue expenditure control without jeopardizing economic recovery

In 2012-2013, through rigorous expenditure control, the government limited program spending growth to 1.2%.

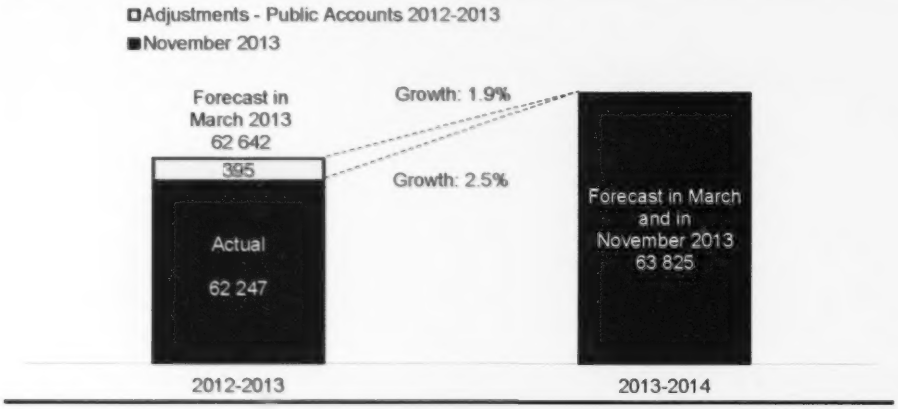
The pursuit of rigorous expenditure control in all government departments and bodies will allow for the attainment of the anticipated budget deficits without impeding economic recovery.

❑ 2013-2014

For the year under way, the level of program spending is being maintained at $63 825 million as anticipated in the March 2013 Update, equivalent to a 2.5% increase. The adjustment of the growth rate stems from lower-than-anticipated real expenditures in 2012-2013.

GRAPHIQUE A.14

Adjusted program spending – 2012-2013 and 2013-2014
(millions of dollars)



❑ 2014-2015 to 2017-2018

For 2014-2015 to 2016-2017, program spending growth is set at 2.0%.

— This marks a downward adjustment of 0.5 percentage point the first year and 1.2 percentage points for the two subsequent years. The adjustments take into account the impact of new policies that the government announced recently.

Starting in 2017-2018, the pace of program spending growth may be brought into line with anticipated growth in revenue.

TABLE A.9

Program spending growth – November 2013
(as a percentage)

	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
Program spending – March 2013	**1.9**	**1.9**	**2.5**	**3.2**	**3.2**	**3.2**
Fall adjustments	–0.7	0.6	–1.0	–1.3	–1.2	0.1
Economic and solidarity policies[1]	—	—	0.5	0.1	—	—
PROGRAM SPENDING – NOVEMBER 2013[2]	**1.2**	**2.5**	**2.0**	**2.0**	**2.0**	**3.3**

(1) Impact on expenditure excluding the impact of fiscal measures.
(2) The level of program spending for 2013-2014 has not been adjusted. The adjustment of the growth rate stems from lower-than-anticipated real expenditures in 2012-2013.

An approach that is more moderate and more stable than elsewhere

The approach that Québec has adopted to ensure a return to a balanced budget is more moderate and more stable than elsewhere.

- Consolidated spending growth in 2014-2015 and 2015-2016 will stand at 2.1%.

Other jurisdictions have further limited growth in spending, both in the rest of Canada and elsewhere.

- British Columbia anticipates 1.7% growth in spending in 2013-2014 and 0.8% in 2014-2015, a downturn in relation to 2012-2013.
- The federal government anticipates a reduction in spending for 2014-2015.
- Ontario will experience striking fluctuations in its spending growth rates, which will fall from 4.2% in 2013-2014 to 0.4% in 2015-2016.
- Growth rates in England will hover more around 1% between 2013-2014 to 2015-2016.

Consolidated spending growth excluding debt service in certain jurisdictions[1]
(as a percentage)

	2012	2013	2014	2015
Québec				
– Program spending	1.2	2.5	2.0	2.0
– Consolidated expenditure	2.5	3.3	2.1	2.1
In Canada				
British Columbia	2.9	1.7	0.8	2.0
Ontario	–0.4	4.2	1.1	0.4
Federal government	0.9	2.9	–0.2	2.5
Abroad[2]				
United States	–1.7	–2.6	3.8	4.6
England	2.5	1.2	1.1	0.9
Euro area	1.2	1.9	1.9	2.3

(1) Consolidated expenditure excluding debt service is presented by fiscal year for the provinces, the Government of Canada and the US federal government.
(2) Such expenditure represents current spending excluding debt service for all orders and levels of government, with the exception of the United States.
Sources: Finance Canada Public Accounts file, the Congressional Budget Office (CBO), Washington, and the European Commission (Ecofin, November 2013) and calculations of the Ministère des Finances et de l'Économie du Québec.

❑ Dampened growth in spending in relation to preceding years

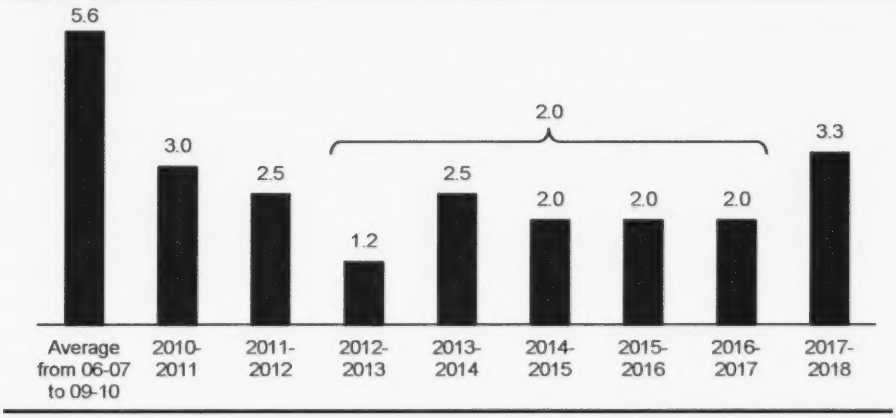
■ Program spending

Average program spending growth will be maintained at a pace appreciably below that in recent years.

Between 2012-2013 and 2016-2017, average growth will stand at 2.0%, a 3.6 percentage points drop in relation to the average figure of 5.6% observed between 2006-2007 and 2009-2010.

CHART A.15

Program spending growth
(as a percentage)



■ Consolidated expenditure

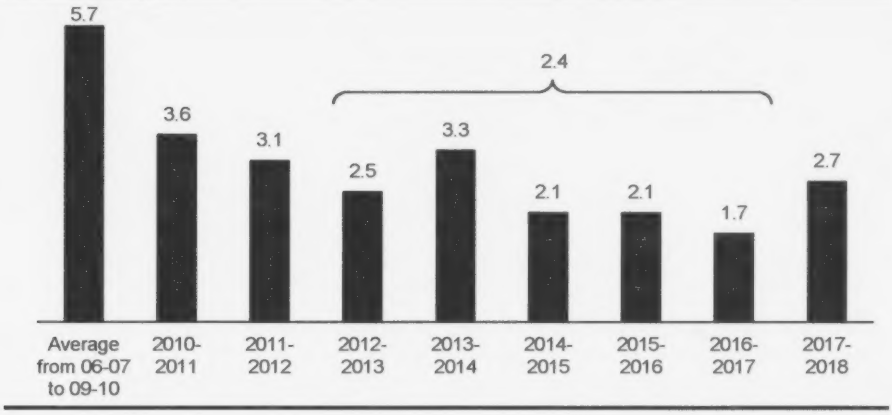
The same observation applies for consolidated expenditure excluding debt service. Average annual growth between 2012-2013 and 2016-2017 will stand at 2.3% and will also correspond to a lower growth rate than in past years.

— In relation to the average observed for 2006-2007 to 2009-2010, this marks a reduction of 3.3 percentage points.

What is more, higher-than-anticipated growth in 2013-2014 is attributable, in particular, to lower expenditures levels in 2012-2013 and to adjustments in the expenditures of consolidated entities in 2013-2014.

CHART A.16

Growth in consolidated expenditure excluding debt service
(as a percentage)



❑ Gradually restore the weight of expenditure in the economy

In order to restore balance between expenditure and the government's and taxpayers' ability to pay, it is important to gradually restore expenditure to its historic weight in the economy.

— Between 1972 and 2012, consolidated expenditure as a percentage of GDP stood, on average, at 21.3%. For 2011-2012, expenditure accounted for 22.8% of GDP, 1.5 percentage points higher.

The approach that the government has adopted will make it possible to gradually restore such balance without compromising economic recovery.

— The first steps in this direction were taken in 2012-2013, when growth in consolidated spending was limited to 2.5%.

By 2017-2018, planned growth in spending will bring the share of consolidated expenditure in GDP to 21.5%, closer to the historic average of 21.3%.

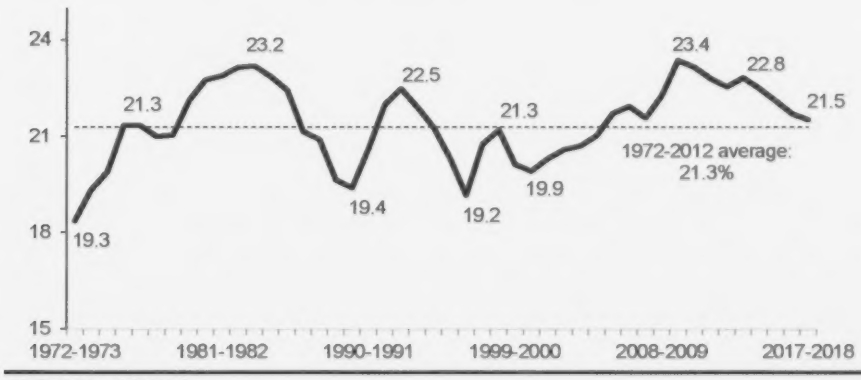
It is important to restore this balance to:

— prevent excessive spending from creating an onerous fiscal burden in relation to our neighbours, which could undermine tax competitiveness and limit economic growth in Québec;

— ensure that the government has the capacity when another recession occurs to finance higher spending that might be necessary to support the economy.

CHART A.17

Change in the share of consolidated expenditure[(1)] in the economy
(as a percentage of GDP)



(1) Excluding debt service.
Note: Calculations of the Ministère des Finances et de l'Économie du Québec.

❑ Pursue responsible expenditure management

For fiscal years 2012-2013 and 2013-2014, the government set a spending growth target of 1.9%, the lowest rate in 15 years. Despite this ambitious objective, in 2012-2013 the government achieved the best performance in the past 15 years from the standpoint of control over program spending. Indeed, such spending was $395 million lower than forecast in the 2012-2013 Budget tabled in March 2012 and in the March 13 *Update on Québec's Economic and Financial Situation*.

To attain fiscal balance in 2015-2016, the government has decided to pursue rigorous, responsible control over spending.

To this end, it plans, in particular, to maintain its efforts to optimize the use of its resources, which must be managed such that they maximize spinoff for each dollars invested. The government will pursue its initiatives bearing in mind, notably, three key directions:

— the reinforcement of planning by government departments and bodies in order to adopt a medium-term perspective of the level and use of the resources available;

— the ongoing enhancement of the quality and efficiency of the management of public services, for example:

  — through the reinforcement of mechanisms designed to ensure the integrity of the public service overall and companies that do business with the government;

  — through the enhancement of processes, in particular with respect to contract management;

  — by funding public agencies more extensively according to the services provided, bearing in mind the financial resources available;

— enhanced accountability and awareness-raising among Quebecers of challenges in the realm of public finances.

1.3.3 Avoid recourse to tax increases

In order to maintain Québec's tax competitiveness, especially in respect of its trading partners, the government is avoiding further increases in the tax burden of individuals and businesses.

— All taxpayers have contributed in recent years to putting public finances in order in the wake of the implementation of additional taxes.

— Accordingly, the entire array of measures introduced in recent years will increase revenue by $6.3 billion in 2013-2014, according to the assessment of their financial impact made when they were announced.

The significant increase in the tax burden in recent years combined with the adjustment in the tax base in relation to what was forecast when the measures were established will diminish returns from them in 2012-2013 and in 2013-2014.

— For example, fin the wake of $437-million downtum between the 2012-2013 Budget and the March 2013 Update, Québec sales tax revenue has once again been adjusted downward by $505 million for 2012-2013.

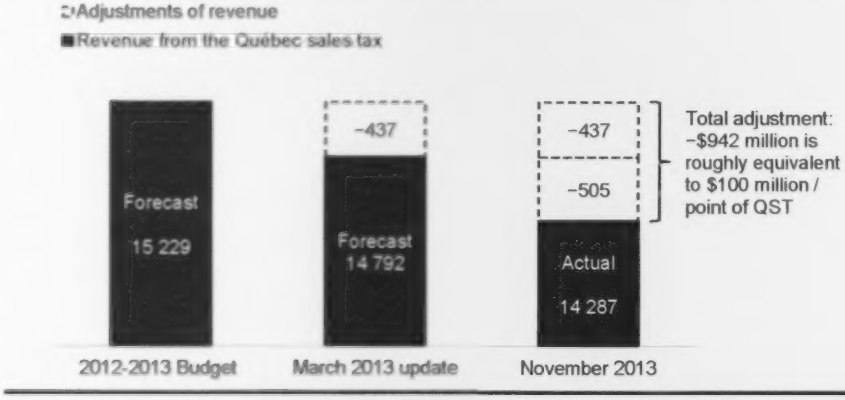
  — All told, this represents an adjustment of nearly $1 billion between the 2012-2013 Budget forecast and the actual result.

  — The adjustment is equivalent to a reduction of roughly $100 million per percentage point of Québec sales tax.

To achieve fiscal balance, the government has decided to avoid increasing Quebecers' tax burden.

CHART A.18

Sales tax revenue for 2012-2013
(millions of dollars)



Revenue-related measures since the 2009-2010 Budget

In recent years, several revenue-related measures have been implemented, in particular a 2-percentage point increase in the sales tax, increases in the fuel tax, and the introduction of the healthcare contribution.

At the time of their announcement, it was anticipated that the measures would increase revenue by $3.2 billion in 2011-2012, $5.3 billion in 2012-2013 and over $6.0 billion starting in 2013-2014.

Revenue-related measures announced since the 2009-2010 Budget
(millions of dollars)

	2011-2012	2012-2013	2013-2014	2014-2015
Increase in the Québec sales tax from 7.5% to 9.5%[1]	1 615	2 715	2 815	2 815
Increase in the contribution by financial institutions	115	139	204	335
1 ¢/litre increase in the fuel tax on April 1 of each year from 2010 to 2013	240	360	480	480
Introduction of the healthcare contribution as of July 1, 2010[2]	575	945	945	945
Effort to combat tax evasion and tax avoidance	555	875	1 400	1 400
Other measures[3]	114	268	485	485
TOTAL	**3 214**	**5 302**	**6 329**	**6 460**

Note: The financial impact indicated is that estimated when the measures were announced.
(1) Including the increase in the refundable tax credit for the Québec sales tax and additional indexation of the personal income tax system and the last resort assistance program announced in the 2009-2010 Budget.
(2) Since January 1, 2013, the healthcare contribution has been progressive.
(3) Includes the indexing of all non-indexed user fees as from January 1, 2011, the adjustment of the mining duties regime, the increase in the specific tax on tobacco products and the increase in the specific tax on alcoholic beverages.

1.3.4 Additional payments to the Generations Fund starting in 2016-2017

❑ The attainment by 2025-2026 of the debt reduction objectives

The attainment by 2025-2026 of Québec's debt reduction objectives is essential to the maintenance of sound public finances in order to ensure short-, medium- and long-term economic growth and quality public services. In this respect, three factors compel Québec to maintain the objectives:

- more rapid ageing of the population;
  - This phenomenon is gradually exerting downward pressure on economic growth and, consequently, government revenues.
  - What is more, additional pressure is already being exerted on certain expenditures because of this phenomenon, in particular healthcare.
- a higher level of indebtedness than elsewhere;
  - The weight of Québec's debt, as a proportion of the economy, is the highest of the Canadian provinces. This high level of indebtedness significantly affects debt service.
  - The higher debt costs are, the less money there is to fund public services or the smaller the leeway to maintain Québec's tax competitiveness.
- the resumption of economic growth;
  - Efforts to combat indebtedness must be pursued and even accelerated in times of economic growth so that Québec is in a position to contend with the next recession.

❑ Fully offset the impact of additional deficits on the debt

The anticipated deficits in 2013-2014 and in 2014-2015 total $4.25 billion and will be added to the debt.

— This additional indebtedness must be fully offset in order to abide by the debt reduction objectives by 2025-2026.

The impact of the deficits on the debt will require additional annual payments of $425 million to the Generations Fund starting in 2016-2017.

— The additional payments required to ensure compliance with the debt reduction objectives will be drawn from revenues stemming from the specific tax on alcoholic beverages, which represents a stable source of income.

— The payments will be added to the $100 million annual payments to the Generations Fund starting in 2014-2015, announced in the 2013-2014 Budget.

The *Act to reduce the debt and establish the Generations Fund* will be amended to recognize the additional payments to the Generations Fund starting in 2016-2017.

The additional transfer of revenue to the Generations Fund will be offset by an equivalent reduction in program spending starting in 2016-2017. In so doing, the government's initiative will not affect the financial framework, which anticipates a return to a balanced budget starting in 2015-2016.

TABLE A.10

Impact on the budgetary balance[1] of additional payments to the Generations Fund
(millions of dollars)

	2015-2016	2016-2017	2017-2018
Current payments to the Generations Fund	1 661	1 983	2 571
Additional payments from revenue drawn from the specific tax on alcoholic beverages	—	425	425
Total – Payments to the Generations Fund	1 661	2 408	2 996
Impact on the financial framework			
Budgetary revenue	—	–425	–425
Program spending	—	425	425
IMPACT ON THE GOVERNMENT'S BUDGETARY BALANCE	—	—	—

(1) Budgetary balance within the meaning of the *Balanced Budget Act*.

2. DETAILED ADJUSTMENTS TO THE FINANCIAL FRAMEWORK

2.1 Lower-than-anticipated revenues

❑ A $2.5-billion downward adjustment in own-source revenue in 2013-2014

Own-source revenue was adjusted downward by $1 083 million in 2012-2013 and by $2 497 million in 2013-2014.[1]

The adjustments by source of revenue are as follows:[2]

— revenue from the consumption tax has been adjusted downward because of lower-than-anticipated consumption, mainly a reflection of a higher savings rate;

— revenue from personal income tax has been adjusted downward in light of weaker-than-anticipated growth in wages and salaries;

— lower-than-anticipated growth in corporate tax reflects a downward adjustment in the net corporate operating surplus;

— the downward adjustment in mining duties revenue because of weaker-than-anticipated prices for metals produced in Québec.

TABLE A.11

Adjustments to own-source revenue in 2012-2013 and in 2013-2014
(millions of dollars)

	2012-2013	2013-2014
Personal income tax	–490	–885
Contributions to the Health Services Fund	55	–36
Corporate taxes	–225	–741
Consumption taxes(1)	–492	–576
Mining duties	–14	–115
Government enterprises	123	–73
Other sources of revenue	–40	–71
TOTAL	**–1 083**	**–2 497**

(1) Includes a $505-million downward adjustment in the Québec sales tax in 2012-2013.

1 Includes, for 2013-2014, the impact of the $12 million stemming from the fiscal measures in *Economic Policy – Putting Jobs First*.

2 See more detailed explanations in Section C.

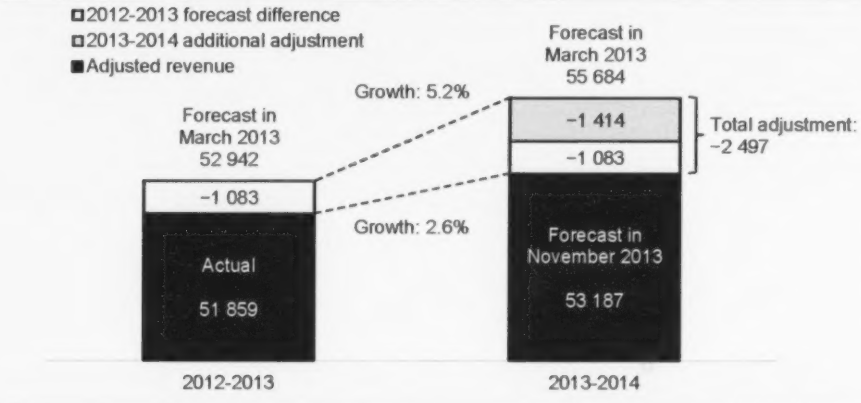
The adjustment observed at the end of 2012-2013 combined with the adjustments attributable to the 2013-2014 economic outlook have a total impact of nearly $2.5 billion on the anticipated level of own-source revenue in 2013-2014.

— First, the revenue shortfall observed in 2012-2013 has lowered by $1 083 million the level of revenue over the entire forecasting period since growth in 2013-2014 applies to a lower level of revenue.

— Second, while the March 2013 Update forecast 5.2% growth in own-source revenue in 2013-2014, such growth now stands at 2.6%, which reduces revenue by an additional $1 414 million.

CHART A.19

Adjusted own-source revenue – 2012-2013 and 2013-2014
(millions of dollars)



❑ Change in revenue in 2012-2013

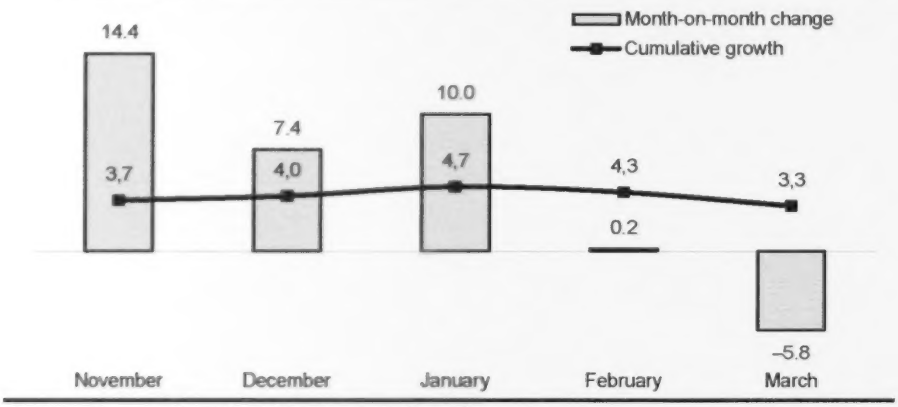
Own-source revenue from the general fund recorded in the *Public Accounts 2012-2013* rose 3.3% in relation to 2011-2012, compared with anticipated growth of 5.3%, which marks a $1 083-million downward adjustment in own-source revenue since the March 2013 *Economic and Financial Update*.

When the Ministère des Finances et de l'Économie prepared the March 2013 forecast, it had available detailed information on revenue up to January, which revealed cumulative growth of 4.7%. At that time, an improvement in cumulative growth in revenue had also been observed since November 2012.

Primarily because of sluggish economic activity in early 2013, own-source revenue did not grow in February and fell by 5.8% in March, thereby reducing growth for the fiscal year overall to 3.3%.

CHART A.20

Own-source revenue
Monthly[1] and cumulative[2] growth – End of fiscal year 2012-2013
(as a percentage)



(1) Change in revenue in relation to the same month the previous year.
(2) For a given month, change in revenue since the beginning of fiscal year 2012-2013 in relation to the same period in 2011-2012.
Source: According to the monthly report on financial transactions and the results of the Public Accounts for the year-to-date as at March 31.

❑ Anticipated change in revenue in 2013-2014

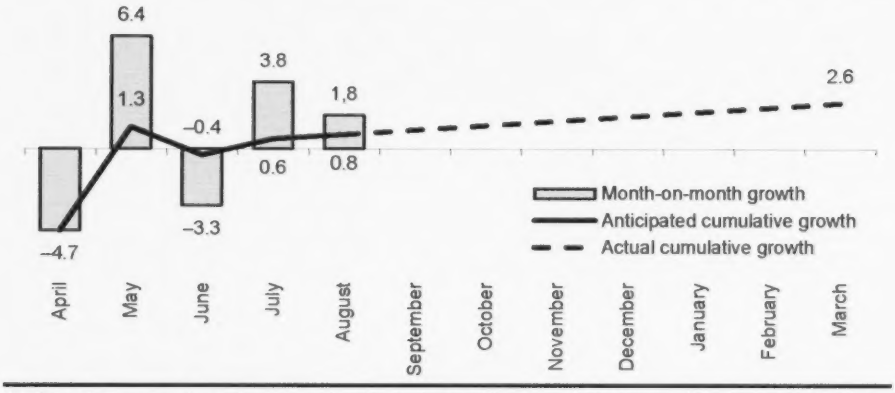
At the beginning of the 2013-2014 fiscal year, revenue continued to increase slightly but displayed gradual improvement, in keeping with the new economic growth forecast.

After five months, i.e. from April to August, growth in revenue stood at 0.8% in relation to the same period the previous year. It is expected to stand at 2.6% by the end of the year.

This downward adjustment in relation to the anticipated growth of 5.2% in the March 2013 Update nonetheless represents an additional shortfall of $1 414 million.

CHART A.21

Real and anticipated cumulative growth[1] in own-source revenue – 2013-2014
(as a percentage)



(1) For a given month, change in revenue since the beginning of fiscal year 2013-2014 in relation to the same period in 2012-2013.

Sources: Monthly report on financial transactions for the months from April to August. Ministère des Finances et de l'Économie forecasts for fiscal year 2013-2014 overall.

❑ Factors that explain adjustments to own-source revenue

In 2013-2014, own-source revenue will be $2.5 billion lower than anticipated in March 2013, which can be explained by:

— the recurrence of the revenue shortfall observed at the end of fiscal year 2012-2013 and which stands at $1 083 million;

— additional adjustments of $1 414 million attributable to the new economic outlook for 2013-2014, including:

  — the anticipated impact of adjustments to economic indicators and their impact on the tax bases according to the sensitivity analysis, based on the average elasticity of own-source revenue in relation to nominal GDP;

  — additional impact related to the economy but stemming from the changing behaviour of certain economic agents at a time of weak growth in output and prices;

  — the downward adjustment in mining duties revenue because of weaker-than-anticipated prices for metals produced in Québec;

  — the downward adjustment of anticipated revenue at Loto-Québec and the Société des alcools du Québec.

TABLE A.12

Anticipated adjustments to own-source revenue in 2013-2014
(millions of dollars)

	2013-2014
Recurrence of revenue shortfalls observed at the end of 2012-2013	**–1 083**
Revisions attributable to revised economic prospects for 2013-2014	
Anticipated impact of the adjustment of economic indicators	–750
Additional impact related to the economy	–405
Adjustments to mining duties	–115
Adjustments – Loto-Québec and Société des alcools du Québec	–144
Subtotal	**–1 414**
TOTAL	**–2 497**

■ Anticipated impact of the adjustment of economic indicators

The $1 414-million downward adjustment in own-source revenue in 2013-2014 is partly attributable to the adjustment of nominal GDP. Indeed, anticipated growth in nominal GDP was revised from 3.6% to 2.1% for 2013, a 1.5-percentage point reduction in relation to what was forecast in March 2013.[3]

According to the standard sensitivity analysis,[4] which reflects the average of the elasticities observed over a long period, a 1 pourcentage point drop in nominal GDP usually leads to a 1% decrease in own-source revenue, which is equivalent to roughly $500 million.

— Based on the sensitivity analysis, the 1.5% difference should lead to a $750-million downward adjustment in own-source revenue in relation to what was forecast in March 2013:

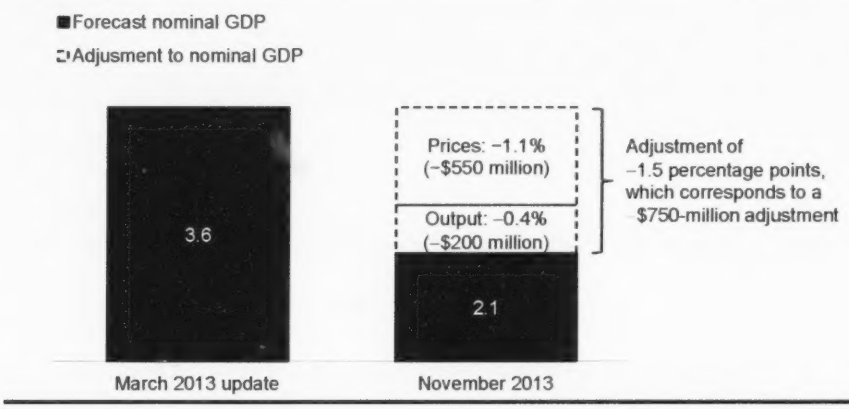
  — $550 million attributable to lower-tha-anticipated price increases;

  — $200 million stemming from lower-than-anticipated growth in output.

For 2014, nominal GDP has also been adjusted downward, from 3.9% to 3.6%.

GRAPHIQUE A.22

Adjustment to nominal GDP – 2013
(as a percentage)



[3] The downward adjustments of nominal GDP will lead to weaker growth in revenue, given the direct link between tax bases and economic activity.

[4] See the appendix in Section C.

■ Additional impact related to the economy

Furthermore, mainly because of change in the behaviour of businesses, the additional impact related to the economy is estimated at $405 million.

The results observed in Québec since the beginning of 2013 reveal a marked downward adjustment in the net corporate operating surplus. Indeed, anticipated growth in this economic indicator has been adjusted from 4.9% to –6.0% in 2013.

A change of this magnitude has led companies to make difference choices in respect of their tax payable. Among other things, they have opted to:

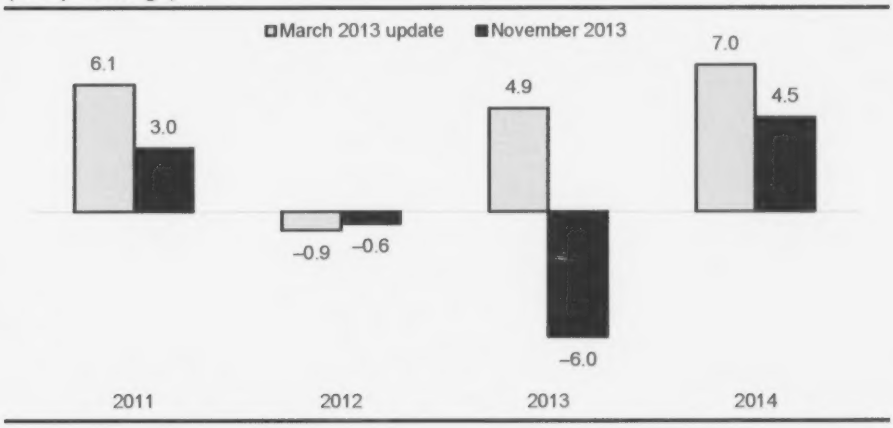
— lower their tax instalments;

— defer to provious years the losses incurred in order to obtain partial refund of the tax paid for the years in question.

The choices have increased the anticipated adjustments in own-source revenue stemming from the revised economic forecasts.

CHART A.23

Adjustment to the net corporate operating surplus
(as a percentage)



■ Adjustments to mining duties revenue

The $115-million adjustment to mining duties revenue in 2013-2014 is attributable, by and large, to lower prices for metals produced in Québec.

Indeed, change in mining duties revenue is highly sensitive to change in the price index of the metals produced in Québec. For example, a 1% drop in the price of metals produced in Québec leads to a reduction of roughly $6 million in mining duties revenue.

Between the beginning of 2013 and the fall, forecasters in the private sector have adjusted downward their forecasts for metal prices in the coming years. Accordingly, the adjusted forecast hinges on a downward adjustment of 18.0% in prices for 2013. The downturn largely explains the adjustment in mining duties revenue in 2013-2014.

Appendix 2 of Section C presents details of the adjustments to mining duties revenue.

■ Adjustments to revenue from Loto-Québec and the Société des alcools du Québec

Revenue from Loto-Québec and the Société des alcools du Québec is $144 million less than anticipated. The downward adjustment of $114 million in Loto-Québec's net income in 2013-2014 is mainly attributable to results that fell short of expectations in the video lottery and casino sectors. Furthermore, the net income of the Société des alcools du Québec was adjusted downward by $30 million because of lower-than-anticipated growth in consumer spending.

2.2 Adjustments to federal transfers

Equalization payments, revenue from the Canada Health Transfer (CHT) and the Canada Social Transfer (CST) are apportioned among the provinces on a per capita basis, which means that they are highly sensitive to population data.

On September 26, 2013, Statistics Canada published the final data from the 2011 Census, which indicated as of June 1, 2011:

— an upward adjustment of 29 728 persons in Québec's population;

— a downward adjustment of 143 147 persons in Canada's population.

Consequently, in 2014-2015 and 2015-2016, equalization payments to Québec have been adjusted upward by $440 million and $504 million, respectively.

— An upward adjustment in Québec's population reduces its per capita fiscal capacity (fiscal capacity divided by a bigger population) and distances it away from the average fiscal capacity of the ten provinces. The shortfall to be offset in relation to the average of the ten provinces is thus bigger, which increases Québec's equalization payments.

For 2013-2014 to 2015-2016, Québec's revenue from the CHT and the CST has also be adjusted upward, including $191 million in 2013-2014 in respect of the CHT and $40 million the same year as regards the CST.

— An upward adjustment in Québec's population increases its share of the allocation for these transfers. A downward adjustment in Québec's population would have the opposite effect on such revenue.

What is more, consideration of the entire array of economic and fiscal data has led to other adjustments that reduce the impact of the increases linked to new population-based data from the 2011 Census.

TABLE A.13

Impact of the 2011 Census on Québec's federal transfers

(millions of dollars)

	2013-2014	2014-2015	2015-2016
Census			
– Equalization[1]	—	440	504
– Canada Health Transfer (CHT)[2]	191	50	52
– Canada Social Transfer (CST)[3]	40	20	20
Total – Census	**231**	**510**	**576**
Other adjustments	**–37**	**–262**	**–208**
ADJUSTMENTS TO FEDERAL TRANSFERS	**194**	**248**	**368**

(1) Since Québec's equalization payment for 2013-2014 has been known since December 2012 and had not been adjusted, payments for 2013-2014 and previous years will not be affected by the new population-based data.
(2) Including previous years as from 2010-2011 and excluding revenue from the fund to reduce waiting time.
(3) Including previous years as from 2012-2013.
Sources: Statistics Canada and Ministère des Finances et de l'Économie du Québec.

2.3 New actuarial valuations of the retirement plans

The new actuarial valuations of the retirement plans of the public and parapublic sector employees have led to an increase in the value of the government's commitments in respect of the plans. Government program spending has been increased by roughly $400 million a year starting in 2013-2014.

Three factors explain the increase in spending stemming from the new actuarial valuations of the retirement plans:

— experience adjustments, which represent the difference between the results observed and the assumptions adopted during previous actuarial valuations, e.g. fewer deaths among retirees, earlier retirement, and so on;

— the updating of demographic hypotheses, e.g. the mortality rates anticipated;

— the updating of economic assumptions, e.g. the discount rate used in the actuarial valuation, the anticipated inflation rate, and so on.

TABLE A.14

Impact of the new actuarial valuations on program spending in respect of the retirement plans
(millions of dollars)

	2013-2014	2014-2015	2015-2016
Net cost of accrued benefits	163	153	159
Amortization of adjustments stemming from the actuarial valuations	241	241	240
TOTAL	**404**	**394**	**399**

The $404-million increase in program spending in 2013-2014 reflects an increase of:

— $163 million in expenditure regarding the cost of accrued benefits (also called the "current service expenditure"), i.e. the current value of retirement benefits that will be paid in respect of service performed by employees during the current fiscal year;

— $241 million as part of the amortization of the experience adjustments observed in the latest actuarial valuations.

What is more, the increase in actuarial obligations leads to an increase of roughly $100 million in interest expenses on the retirement plans liability starting in 2013-2014. The interest expense does not represent the cost of the retirement benefits that the government must assume but instead the interest paid on a portion of its debt.

This situation arises because, historically, the government has decided to manage internally its contributions to the retirement plans of its employees rather than entrust its management to an external fund, which has reduced borrowings on financial markets. Consequently, commitments in respect of the retirement plans of government employees are recorded in the government's liabilities and its direct debt, i.e. debt borrowed on financial markets, is lower.

New actuarial valuations of the retirement plans of public and parapublic sector employees

According to public sector accounting standards, the value of the obligations pertaining to retirement plans benefits for which the government is responsible are subject every three years to an actuarial valuation "for accounting purposes", i.e. for the preparation of the government's financial statements. Separate actuarial valuations "for funding purposes" are also produced to estimate the commitments assumed by employees and to determine the contribution rates that they must assume.

The government presents in its financial statements the present value of the retirement benefits that it must eventually pay to its employees. The actuarial valuations affect the retirement plans liability, which is recorded in the government's debt, and budgetary expenditure in respect of the retirement plans.

The Commission administrative des régimes de retraite et d'assurances (CARRA) conducts actuarial valuations for all of the plans based on the rules of the Canadian Institute of Actuaries (CIA) and the Canadian Institute of Chartered Accountants (CICA). Moreover, the Auditor General of Québec (AG) audits the methods and hypotheses that the Ministère des Finances et de l'Économie du Québec (MFEQ) used for the actuarial valuation for accounting purposes and those adopted by the CARRA for actuarial valuations for funding purposes.

Methodology used

The value on a given date of obligations respecting accrued benefits is evaluated for all of the retirement plans using the projected benefits method prorated on years of service taking into account, among other things, the most likely economic and demographic assumptions.

Pursuant to the accounting standards, the economic and demographic assumptions concerning the actuarial valuations for accounting purposes are determined by the employer, i.e. the MFEQ on behalf of the government. In addition, because of the CARRA's expertise and the demographic data available to it, the MFEQ uses the demographic assumptions that the CARRA establishes.

The government applies the standards of the CICA respecting the public sector (Section PS 3250) to determine the economic assumptions necessary to produce the actuarial valuation for accounting purposes.

In particular, section PS3250.041 stipulates that:

- « Each key actuarial assumption would be based on the government's best estimate of those future events that have an effect on the accrued benefit obligation ».
- « Assumptions about the long-term future, however, are not to be unduly influenced by the experience expected in the short term ».

New actuarial valuations of the retirement plans of public and parapublic sector employees (continued)

In practice, in order to limit the short-term impact of economic conditions on the long-term economic assumptions adopted, the methodology selected consists in analyzing change in each of the economic variables subject to very long-term forecasts. It is important to select a sufficiently long period to encompass several economic cycles and to thereby limit the influence of a particular cycle. This method conforms to actuarial practice.

When the value of actuarial obligations is updated, the new value differs necessarily from the value projected at the time of the previous actuarial valuation. The difference stems from experience adjustments and new assumptions.

- Experience adjustments reflect the actual results observed in relation to the assumptions adopted at the time of the previous actuarial valuation. For example, the wage increases observed may differ from the forecast. Similarly, the number of deaths may differ from what was forecast.
- The new assumptions reflect the best estimate for the future. For example, the estimate reflects a bigger-than-anticipated increase in life expectancy.

The difference observed at the time of the adjustment is gradually recorded in expenditure over a period corresponding to the expected average remaining service life (EARSL) of participants in the plan, starting in the subsequent year, as the accounting standards prescribe.

2013 actuarial valuations

Given that over ten retirement plans are subject to actuarial valuations by the CARRA, the valuations are conducted over a period of three years. In 2013, for example, the new actuarial valuations of the four biggest retirement plans (RREGOP, PPMP, RRE and CCSP)[1] were carried out and the estimates were adjusted for the other plans. The RREGOP and the PPMP alone account for over 97% of all active participants in the retirement plans of public and parapublic sector employees and approximately 85% of the government's liabilities in respect of the retirement plans. The most recent actuarial valuations of the four plans were conducted in 2010.

1 Government and Public Employees Retirement Plan (RREGOP), Pension Plan of Management Personnel (PPMP), Régime de retraite des enseignants (RRE) and Civil Service Superannuation Plan (CCSP).

2.4 New government policies

❑ *Economic Policy – Putting Jobs First*

On October 7, 2013, the government adopted *Economic Policy – Putting Jobs First*, which makes provision for nearly $2 billion in budget and fiscal measures to support the economy, in particular with the creation by 2017 of 43 050 jobs.

More specifically, *Economic Policy – Putting Jobs First* provides for investments totalling:

— $581 million to make Québec a knowledge-based society that benefits from skilled labour;

— $709 million to enable Québec to develop more efficient enterprises that are able to take their place in an increasingly competitive world;

— $82 million to enable businesses to capitalize on their know-how in exporting, thereby enabling Québec to broaden its presence on external markets;

— $516 million to undertake the electrification of transportation in Québec;

— $112 million to promote green renovation.

■ Sources of funding

The investments will be partly funded from sources of revenue already specified in the government's financial framework:

— the Green Fund;

— the Transportation Electrification Fund.

Bearing mind these sources of funding, *Economic Policy – Putting Jobs First* requires additional funding of $1.3 billion over four years.

TABLE A.15

Economic Policy – Putting Jobs First
(millions of dollars)

	2013-2014	2014-2015	2015-2016	2016-2017	Total
Investments					
A knowledge-based society that benefits from skilled labour	–2	–170	–199	–210	**–581**
Efficient businesses	–25	–170	–247	–267	**–709**
Direct initiatives respecting export markets	—	–26	–28	–27	**–82**
A transportation electrification strategy	–20	–144	–171	–181	**–516**
Support for green renovation	–5	–97	–5	–5	**–112**
Subtotal – Investments	**–52**	**–607**	**–651**	**–690**	**–1 999**
LESS:					
Funding already set aside					
Transportation Electrification Fund	5	73	57	65	**200**
Green Fund	15	123	189	185	**512**
Subtotal	**20**	**196**	**246**	**250**	**712**
Additional funding					
Program spending	–21	–276	–322	–354	**–972**
Tax expenditures	–12	–136	–82	–86	**–315**
ADDITIONAL BUDGETARY COST OF THE ECONOMIC POLICY	**–33**	**–412**	**–404**	**–440**	**–1 288**

Note: Since figures are rounded, they may not add up to the total shown.

❑ *La solidarité : une richesse pour le Québec*

On October 30, 2013, the government unveiled *La solidarité : une richesse pour le Québec*, a series of orientations and initiatives in the realm of solidarity. Several measures pertaining to solidarity are defined in three orientations to:

— enhance the well-being of individuals and families;

— support community agencies and social economy enterprises that help people;

— prepare the future by promoting awareness-building, prevention and consensus building.

The orientations must from now on guide the elaboration of public policies.

All told, over $300 million will be invested over four years.

— For the period 2014-2017, the measures will require additional funding of $264 million, spread over three years.

TABLE A.16

***La solidarité : une richesse pour le Québec* –**
Impact on the financial framework
(millions of dollars)

	2013-2014	2014-2015	2015-2016	2016-2017	Total
Investments	–12	–94	–103	–109	–318
LESS:					
Funds already set aside	12	14	15	14	54
BUDGETARY COST	**—**	**–80**	**–89**	**–95**	**–264**

Note: Since figures are rounded, they may not add up to the total shown.

2.5 Adjustments to program spending objectives

In order to gradually restore fiscal balance in 2015-2016, the government is relying on the pursuit of rigorous expenditure control, without impeding economic recovery.

For 2013-2014, the level of program spending is being maintained at the level anticipated in the March 2013 Update. Through expenditure control, the government is assuming from the program spending targets the cost of the new actuarial valuations of the retirement plans of public and parapublic sector employees and the initial $60 million in financial assistance announced in the summer of 2013 for the community of Lac-Mégantic. To these costs must be added, in particular, the cost of the decontamination.

Moreover, the program spending objectives will be reduced by $305 million in 2014-2015 and by $1 112 million in 2015-2016, thereby reducing growth for the two years to 2.0%.

TABLE A.17

Adjustments to program spending objectives
(millions of dollars)

	2013-2014	2014-2015	2015-2016
Adjustments			
New actuarial valuations of the retirement plans of public and parapublic sector employees	–404	–394	–399
Economic policy	–21	–276	–322
Solidarity policy	—	–80	–89
Assistance for the community of Lac-Mégantic[1]	–60	—	—
Subtotal	**–485**	**–750**	**–810**
Expenditure control			
Maintenance of the 2013-2014 spending target	485	485	485
Reduction from 2.5% to 2.0% in spending growth in 2014-2015	—	570	570
Reduction from 3.2% to 2.0% in spending growth in 2015-2016	—	—	867
ADJUSTMENTS TO PROGRAM SPENDING TARGETS	**—**	**305**	**1 112**

(1) Amount granted in the summer of 2013. Cost for decontamination will be in addition to that amount.

3. THE GOVERNMENT'S FINANCIAL FRAMEWORK

This section presents the government's financial framework:

— the financial framework from 2012-2013 to 2017-2018;

— the consolidated financial framework;

— the consolidated financial framework by sector.

❑ The five-year financial framework

The government's financial framework anticipates a return to a balanced budget in 2015-2016. It anticipates deficits of $2.5 billion in 2013-2014 and $1.75 billion in 2014-2015.

The new deficit targets will facilitate a gradual return to a balanced budget without adversely affecting the economy.

— Anticipated budgetary expenditure growth stands at 1.9% in 2014-2015 and in 2015-2016.

— However, growth in revenue will be higher, i.e. 2.4% and 3.9%, respectively, in the same years.

— Starting in 2017-2018, the pace of program spending growth may be brought into line with anticipated growth in revenue.

What is more, the financial framework includes contingency reserves of $200 million a year starting in 2015-2016.

The anticipated payments to the Generations Fund are being maintained until fiscal balance is achieved, then increased annually by $425 million starting in 2016-2017 in order to offset the additional anticipated deficits stemming from the postponement by two years of the attainment of budgetary balance.

TABLE A.18

Financial framework from 2012-2013 to 2017-2018

(millions of dollars)

	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
GENERAL FUND						
Budgetary revenue						
Own-source revenue	51 859	53 187	55 153	57 427	59 224	61 130
% change	3.3	2.6	3.7	4.1	3.1	3.2
Federal transfers	15 707	16 619	16 315	16 816	17 398	17 863
% change	*3.0*	*5.8*	*-1.8*	*3.1*	*3.5*	*2.7*
Total budgetary revenue	**67 566**	**69 806**	**71 468**	**74 243**	**76 622**	**78 993**
% change	***3.2***	***3.3***	***2.4***	***3.9***	***3.2***	***3.1***
Budgetary expenditure						
Program spending	–62 247	–63 825	–65 106	–66 390	–67 750	–69 981
% change	*1.2*	*2.5*	*2.0*	*2.0*	*2.0*	*3.3*
Debt service	–7 766	–8 583	–8 679	–8 810	–9 084	–9 206
% change	*5.7*	*10.5*	*1.1*	*1.5*	*3.1*	*1.3*
Total budgetary expenditure	**–70 013**	**–72 408**	**–73 785**	**–75 200**	**–76 834**	**–79 187**
% change	***1.7***	***3.4***	***1.9***	***1.9***	***2.2***	***3.1***
CONSOLIDATED ENTITIES						
Non-budget-funded bodies and special funds[1]	800	215	213	187	43	5
Health and social services and education networks	47	–113	–46	–30	–31	–11
Generations Fund	961	1 069	1 296	1 661	2 408	2 996
Total consolidated entities	**1 808**	**1 171**	**1 463**	**1 818**	**2 420**	**2 990**
Contingency reserves	—	—	—	–200	–200	–200
Shortfall to be offset	—	—	400	1 000	400	400
Extraordinary loss – Closure of Gentilly-2	–1 876	—	—	—	—	—
SURPLUS (DEFICIT)	**–2 515**	**–1 431**	**–454**	**1 661**	**2 408**	**2 996**
BALANCED BUDGET ACT						
Payments of revenue dedicated to the Generations Fund	–961	–1 069	–1 296	–1 661	–1 983	–2 571
Additional payments to the Generations Fund	—	—	—	—	–425	–425
Exclusion – Extraordinary loss[2]	1 876	—	—	—	—	—
BUDGETARY BALANCE[3]	**–1 600**	**–2 500**	**–1 750**	**—**	**—**	**—**

(1) Includes consolidation adjustments.
(2) For 2012-2013, the budgetary balance excludes the accounting impact stemming from Hydro-Québec's extraordinary loss for the closure of the Gentilly-2 nuclear power plant.
(3) Budgetary balance within the meaning of the *Balanced Budget Act*.

TABLE A.19

Consolidated financial framework from 2012-2013 to 2017-2018

(millions of dollars)

	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
Revenue						
Income and property tax	39 072	40 061	42 069	44 061	45 994	47 627
Consumption taxes	16 079	17 100	17 429	17 962	18 037	18 418
Duties and licences	2 084	2 054	2 317	2 487	2 511	2 478
Miscellaneous revenue	9 052	8 955	9 541	9 727	9 943	10 181
Government enterprises	5 108	5 035	5 017	5 073	5 088	5 133
Other sources of revenue	961	1 069	1 296	1 661	2 408	2 996
Own-source revenue	**72 356**	**74 274**	**77 669**	**80 971**	**83 981**	**86 833**
Federal transfers	17 517	18 517	17 674	18 299	18 719	19 293
Total revenue	**89 873**	**92 791**	**95 343**	**99 270**	**102 700**	**106 126**
Expenditure						
Expenditure	–80 673	–83 372	–85 142	–86 930	–88 435	–90 854
Debt service	–9 839	–10 850	–11 055	–11 479	–12 057	–12 476
Total expenditure	**–90 512**	**–94 222**	**–96 197**	**–98 409**	**–100 492**	**–103 330**
Contingency reserves	—	—	—	–200	–200	–200
Shortfall to be offset	—	—	400	1 000	400	400
Extraordinary loss – Closure of Gentilly-2	–1 876	—	—	—	—	—
SURPLUS (DEFICIT)	**–2 515**	**–1 431**	**–454**	**1 661**	**2 408**	**2 996**
BALANCED BUDGET ACT						
Payments of revenue dedicated to the Generations Fund	–961	–1 069	–1 296	–1 661	–1 983	–2 571
Additional payments to the Generations Fund	—	—	—	—	–425	–425
Exclusion – Extraordinary loss[1]	1 876	—	—	—	—	—
BUDGETARY BALANCE[2]	**–1 600**	**–2 500**	**–1 750**	**—**	**—**	**—**

(1) For 2012-2013, the budgetary balance excludes the accounting impact of $1.9 billion stemming from Hydro-Québec's extraordinary loss for the closure of the Gentilly-2 nuclear power plant.
(2) Budgetary balance within the meaning of the *Balanced Budget Act*.

TABLE A.20

Consolidated financial framework by sector from 2012-2013 to 2017-2018

(millions of dollars)

	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
Revenue						
General fund	67 566	69 806	71 468	74 243	76 622	78 993
Special funds	8 663	10 025	10 030	10 695	11 150	11 444
Generations Fund	961	1 069	1 296	1 661	2 408	2 996
Non-budget-funded bodies	18 666	19 505	20 223	21 679	22 205	23 106
Health and social services and education networks	37 665	38 433	38 936	39 615	40 762	42 036
Specified purpose accounts	1 098	1 077	1 161	958	958	958
Tax-funded transfers[1]	6 014	6 152	6 335	6 364	6 465	6 558
Consolidation adjustments[2]	–50 760	–53 276	–54 106	–55 945	–57 870	–59 965
Consolidated revenue	**89 873**	**92 791**	**95 343**	**99 270**	**102 700**	**106 126**
Expenditure						
General fund	–62 247	–63 825	–65 106	–66 390	–67 750	–69 981
Special funds	–6 959	–8 567	–8 344	–8 657	–8 826	–8 802
Non-budget-funded bodies	–17 331	–18 317	–19 106	–20 572	–21 139	–22 063
Health and social services and education networks	–36 768	–37 625	–38 022	–38 569	–39 584	–40 672
Specified purpose accounts	–1 098	–1 077	–1 161	–958	–958	–958
Tax-funded expenditure[1]	–6 014	–6 152	–6 335	–6 364	–6 465	–6 558
Consolidation adjustments[2]	49 744	52 191	52 932	54 580	56 287	58 180
Consolidated expenditure excluding debt service	**–80 673**	**–83 372**	**–85 142**	**–86 930**	**–88 435**	**–90 854**
Debt service						
General fund	–7 766	–8 583	–8 679	–8 810	–9 084	–9 206
Consolidated entities[3]	–2 073	–2 267	–2 376	–2 669	–2 973	–3 270
Consolidated debt service	**–9 839**	**–10 850**	**–11 055**	**–11 479**	**–12 057**	**–12 476**
Consolidated expenditure	**–90 512**	**–94 222**	**–96 197**	**–98 409**	**–100 492**	**–103 330**
Contingency reserves	—	—	—	–200	–200	–200
Extraordinary loss – Closure of Gentilly-2	–1 876	—	—	—	—	—
Shortfall to be offset	—	—	400	1 000	400	400
SURPLUS (DEFICIT)	**–2 515**	**–1 431**	**–454**	**1 661**	**2 408**	**2 996**
BALANCED BUDGET ACT						
Payments of revenue dedicated to the Generations Fund	–961	–1 069	–1 296	–1 661	–1 983	–2 571
Additional payments to the Generations Fund	—	—	—	—	–425	–425
Exclusion – Extraordinary loss[4]	1 876	—	—	—	—	—
BUDGETARY BALANCE[5]	**–1 600**	**–2 500**	**–1 750**	**—**	**—**	**—**

(1) Doubtful tax accounts are included.
(2) The consolidation adjustments stem mainly from the elimination of reciprocal transactions between entities in different sectors.
(3) Includes consolidation adjustments.
(4) For 2012-2013, the budgetary balance excludes the accounting impact of $1.9 billion stemming from Hydro-Québec's extraordinary loss for the closure of the Gentilly-2 nuclear power plant.
(5) Budgetary balance within the meaning of the *Balanced Budget Act*.

Section B

THE QUÉBEC ECONOMY: RECENT DEVELOPMENTS AND OUTLOOK FOR 2013 AND 2014

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HIGHLIGHTS

This section updates the economic forecasts that underpin the government's financial framework. These forecasts include the recently announced measures such as those in the Economic Policy: Putting Jobs First.

❑ Recovery is anticipated in 2014 in the wake of a fragile 2013

The year 2013 is marked by an international context that remained fragile. Global growth was weak in 2013, as it was in 2012.

— Global economic growth stood at 2.9% in 2013, slightly below the 3.2% figure observed in 2012, a modest change.

— Global growth should only gradually improve in 2014 with the anticipated turnaround of the European economy and gradual acceleration in U.S. economic growth.

Recoveries that follow economic recessions are usually characterized by growth synchronized at the global level. The current upturn stands out because of significant regional disparities in terms of growth in real GDP, which generate economic uncertainty.

The main economic regions of the world are affected by specific problems, which often affect several countries.

— In **Québec**, growth in real GDP should fall from 1.5% in 2012 to 0.9% in 2013 because of decelerating domestic demand and the uncertain international economic context. Economic activity should accelerate to 1.8% in 2014 with the anticipated strengthening of growth in the United States and the gradual improvement in the global economy.

TABLE B.1

Economic growth
(real GDP, percentage change)

	2012	2013	2014
Québec	1.5	0.9	1.8
Canada	1.7	1.6	2.1
United States	2.8	1.6	2.4
Euro area	–0.7	–0.4	0.7
Emerging economies	4.7	4.6	4.9

Sources: Institut de la statistique du Québec, Statistics Canada, IHS Global Insight, International Monetary Fund, Datastream and Ministère des Finances et de l'Économie du Québec.

— In **Canada**, weaker domestic demand and an external context less favourable to exports have dampened economic growth, which should fall from 1.7% in 2012 to 1.6% in 2013. Economic growth in Canada should accelerate to 2.1% in 2014.

— In the **United States**, growth has also slowed, from 2.8% in 2012 to 1.6% in 2013, in particular because of the impact of significant budget restrictions implemented early in the year and the partial shutdown of federal government operations in the fourth quarter of 2013. In 2014, economic activity should accelerate to 2.4%, spurred by stronger private domestic demand and the mitigation of the impact of budget restrictions.

— In the **euro area**, economic activity should contract by 0.4% in 2013. Despite the end of the recession in the second quarter of 2013, the economic situation remains difficult and will only improve gradually. The process of straightening out public finances has not been completed and unemployment is at record levels in some countries. In 2014, a modest recovery in economic activity is anticipated, with growth of 0.7%.

— **Emerging economies** continue to benefit from stronger growth than that in the advanced economies. However, their rate of expansion has gradually decreased in recent years, and should stand at 4.6% in 2013. In 2014, acceleration in world trade will foster growth in emerging economies but such growth will be curtailed by structural challenges.

1. THE ECONOMIC SITUATION IN QUÉBEC

In 2013, growth in real GDP in Québec will continue at a more modest pace than anticipated, and stand at 0.9%. Economic growth should subsequently intensify to 1.8% in 2014.

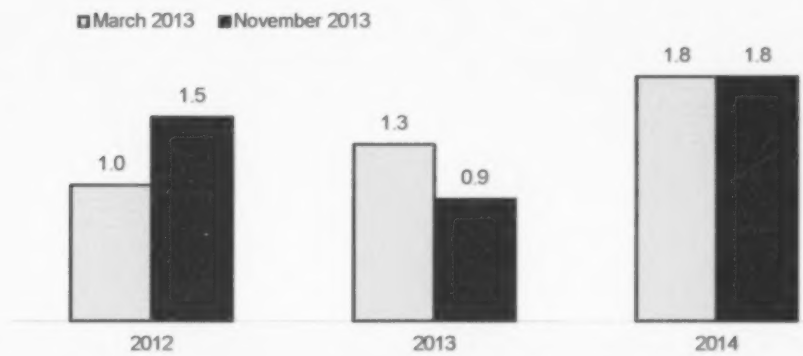
— Growth in real GDP has been adjusted downward by 0.4 percentage point in 2013 in relation to what was forecast in March 2013.

Following a 1.5% real GDP growth in 2012, the Québec economy is experiencing a more moderate growth in 2013. This weakness stems, in particular, from decelerating domestic demand and a fragile international context.

Economic activity in Québec should accelerate gradually in the coming quarters with the anticipated strengthening of growth in the United States and the gradual improvement of the global economy.

CHART B.1

Economic growth in Québec
(real GDP, percentage change)



Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

1.1 Nominal GDP affected by weak prices

Nominal GDP, which measures the value of output accounting for the impact of prices, will grow by 2.1% in 2013 and should increase by 3.6% in 2014.

— Anticipated growth in nominal GDP reflects a progression in real GDP of 0.9% in 2013 and 1.8% in 2014, and higher prices for goods and services produced or imported in Québec, i.e. up 1.3% in 2013 and 1.8% in 2014.

Growth in nominal GDP has therefore been adjusted downward by 1.5 percentage point in 2013 and by 0.3 percentage point in 2014 in relation to what was forecast in March 2013.

— The forecast revision in nominal GDP is bigger than that made to growth in real GDP. Indeed, smaller-than-anticipated growth in prices has led to a significant downward adjustment of nominal GDP, notably in 2013.

The more moderate increase in nominal GDP is reflected in increases in the key tax bases of the government in 2013. In nominal terms:

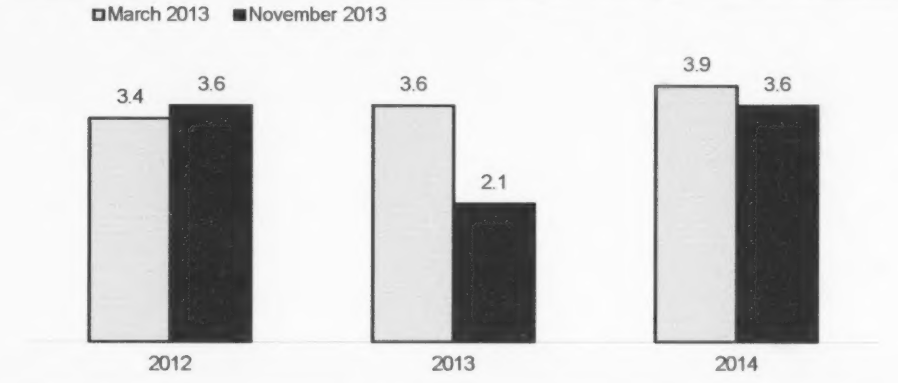
— consumption will rise by 2.8% in 2013 and by 3.5% in 2014;

— wages and salaries will increase by 2.9% in 2013 and by 3.5% in 2014;

— the net operating surplus of corporations will decrease by 6.0% in 2013 and should increase by 4.5% in 2014.

CHART B.2

Change in nominal GDP in Québec
(percentage change)



Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

❑ The consumer price index decelerated markedly in 2013

In the wake of a 2.1% increase in 2012, the consumer price index (CPI) will rise by only 0.9% in 2013. With the strengthening of global economic growth, growth in the CPI should accelerate to 1.8% in 2014, thereby returning closer to normal levels.

Dampened growth in prices in 2013 is partly attributable to:

— surplus supply at a time when North American and global productive capacity outstrips production;

— moderate growth in domestic demand, which is exerting little pressure on prices.

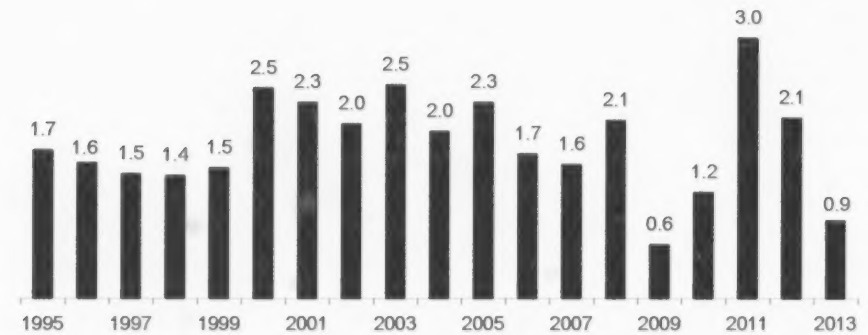
Moreover, currently weak prices are not specific to Québec. Economic activity in most of the advanced economies is changing against a backdrop of weak inflation.

In Canada, growth in the CPI should reach 1.0% in 2013. This change has led the Bank of Canada to adjust downward its inflation forecasts, in particular in its latest *Monetary Policy Report* published in October 2013.

— According to the Bank of Canada, the period of low inflation should continue in the coming quarters. CPI growth should gradually return close to the 2% target by 2015.

CHART B.3

Change in the consumer price index in Québec
(annual percentage change)



Sources: Statistics Canada and Ministère des Finances et de l'Économie du Québec.

1.2 Components of real GDP

Consumers, non-residential business investment and exports will support the anticipated growth of 0.9% in real GDP in 2013 and 1.8% in 2014.

— Moderate growth in household spending should continue in 2013 and 2014, since Québec consumers are displaying caution and rebalancing their finances.

— As is true elsewhere, non-residential business investment has slackened in 2013 but should accelerate again in 2014 as demand firms up.

— Despite the fragile international context, exports continued their gradual improvement in 2013. They should strengthen further in 2014 with the mitigation of global economic uncertainty.

— Residential investment should decline in 2013 and 2014. Even if mortgage interest rates remain low, the adjustment that the real estate market is experiencing and the impact of the measures that the federal government has implemented to limit mortgage debt are continuing to curb residential investments.

— Lastly, growth in spending by all governments is stabilizing in 2013 and 2014 since they are pursuing their efforts to enhance and control their financial situation.

TABLE B.2

Real GDP and its major components
(percentage change)

	2012	2013	2014
Domestic demand			
Household consumption	1.2	1.8	2.0
Residential investment	1.4	–4.3	–1.1
Non-residential business investment	10.6	0.9	2.9
Government spending and investment	1.3	0.1	0.5
External trade			
Total exports	1.6	2.6	2.9
Total imports	2.9	1.6	2.3
Real GDP	**1.5**	**0.9**	**1.8**

Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

1.3 A positive trend is still apparent on the labour market

Although the Statistics Canada Labour Force Survey showed volatility in recent months, the overall trend of the labor market remained positive.

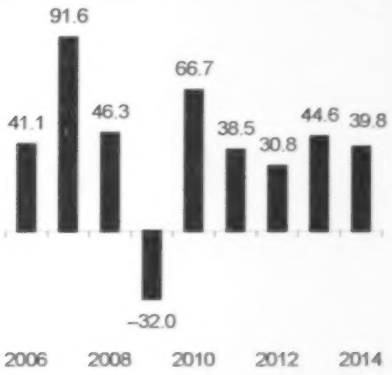
— Following the creation of 30 800 jobs in 2012, 44 600 jobs should be created in 2013, which represents a 1.1% increase over the preceding year.

— Anticipated economic growth in 2014 should culminate in 39 800 additional jobs, or a 1.0% increase.

With ongoing job creation, the unemployment rate should continue to fall gradually, from 7.8% in 2012 to 7.7% in 2013 and 7.6% in 2014.

CHART B.4

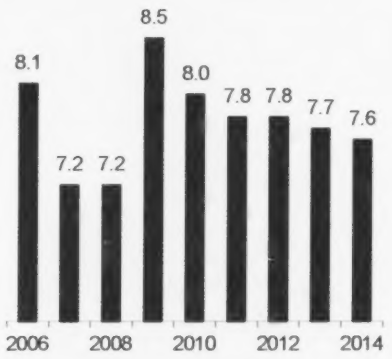
Job creation in Québec
(change in thousands)



Sources: Statistics Canada and Ministère des Finances et de l'Économie du Québec.

CHART B.5

Unemployment rate in Québec
(as a percentage)



Sources: Statistics Canada and Ministère des Finances et de l'Économie du Québec.

The Statistics Canada *Labour Force Survey* continues to reveal significant fluctuations

Labour market data are produced using the Statistics Canada *Labour Force Survey* (LFS). The monthly survey is based on a survey conducted in Canadian households and targets the population 15 years of age and over. The survey provides estimates of employment and unemployment. It breaks down the working-age labour force into three categories: employed, unemployed and inactive persons.

The Statistics Canada survey reveals significant fluctuations since late 2011.

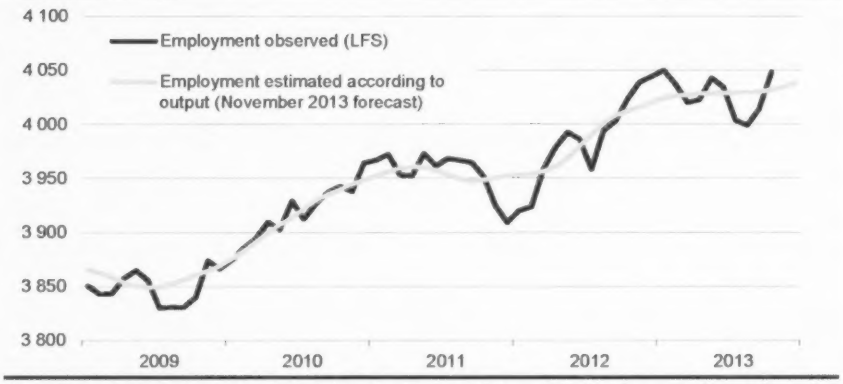
- The monthly statistics that the survey provides show greater variability than the trends observed over longer periods.
- In this context, the fluctuations in employment that the survey indicates in recent months are hard to reconcile with the economic situation.

Despite the survey's volatility, which has continued in recent months, the overall trend on the Québec labour market remains positive. Moreover, the change in employment since the beginning of the year in Québec is similar to that observed in Ontario and Canada:

- for the first 10 months of 2013, in relation to the same period in 2012, growth in employment stood at 1.3% in Québec, compared with 1.5% in Ontario and 1.4% in Canada.

Despite the monthly fluctuations, the trend of the employment survey is in keeping with changes in Québec's output and economic growth.

Employment observed and estimated employment based on Québec's output
(thousands)



Note: The monthly employment estimate is based on the latest data available and forecasts of gross domestic product by industry.
Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

1.4 Moderate growth in household spending

Growth in household spending should continue at a moderate pace. Indeed, in the wake of a 1.2% increase in 2012, such spending will increase in real terms by 1.8% in 2013 and 2.0% in 2014 with the restoration in confidence already observed.

This modest growth in consumption in 2013 is attributable, in particular, to the following factors:

— the trend observed for households to improve their balance sheets;

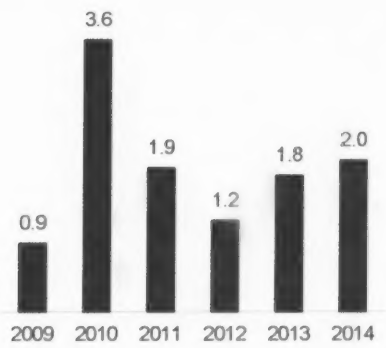
— the fragility of consumer confidence, stemming among other things from the uncertain global economic situation;

— the slowdown in residential investments, which is limiting purchases of certain goods such as construction materials for home renovation, furniture and household appliances.

Growth in household spending should accelerate to 2.0% in 2014, in particular under the impetus of ongoing job creation, more sustained wage growth and stronger consumer confidence.

CHART B.6

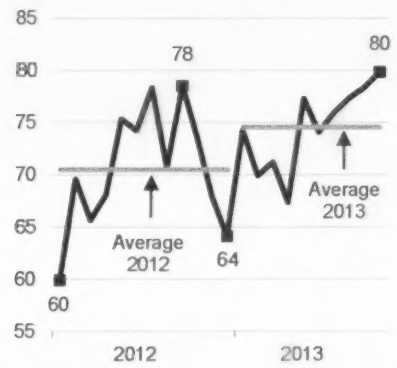
Household consumption expenditures in Québec
(percentage change, in real terms)



Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

CHART B.7

Consumer confidence in Québec
(index, year 2002 = 100)



Sources: Conference Board of Canada and Ministère des Finances et de l'Économie du Québec.

Sluggish growth in nominal consumption

Growth in consumer spending, in nominal terms, has been moderate over the past two years in Québec and in Canada.

- Indeed, in Québec, the value of consumer spending should increase by 2.8% in 2013, following growth of 2.9% in 2012, against 4.8% in 2010 and 4.0% in 2011.

Low inflation

The downturn in nominal consumption stems, in particular, from low inflation.

- In fact, the consumption deflator should rise by only 0.9% in 2013, compared with 2.1% in 2011 and 1.7% in 2012.

The improvement in household balance sheets

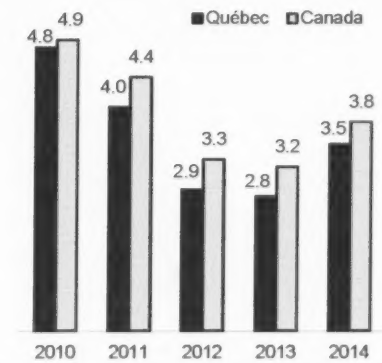
Moreover, Québec households began to improve their balance sheets by increasing their savings.

- The savings rate of Québec households has increased lately, from 2.4% in 2010 to 3.1% in 2013.
- The savings rate of 3.1% currently forecasted for 2013 is higher than the 1.4% forecasted in March, and higher than the rates estimated before Statistics Canada updated the historical data, in October 2013.

While the improvement in household balance sheets is positive over the long term, it is being achieved to the detriment of consumption in the short term.

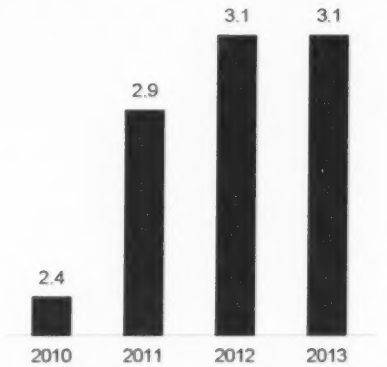
- Furthermore, the factors that have affected nominal consumption should dissipate gradually. Nominal consumption should accelerate to 3.5% in 2014.

Household spending
(percentage change, in nominal terms)



Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

Québec savings rate
(as a percentage)



Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

1.5 Residential investments fell in 2013

The residential sector in both Québec and Canada contracted in 2013. The downturn stems from an adjustment resulting, in particular, from the impact of successive measures to tighten mortgage lending rules introduced between 2008 and 2012 by the federal government to limit the expansion of mortgage credit in Canada.

In this context, residential investments in Québec had already slowed markedly in 2011 and 2012. They will decline by 4.3% in 2013 and by 1.1% in 2014. This trend reflects changes in housing starts.

— Housing starts will fall by 21.3%, to 37 300 units in 2013, compared to 47 400 in 2012. Accordingly, they already stand at levels slightly below household formation, which stands at nearly 40 000 per year.

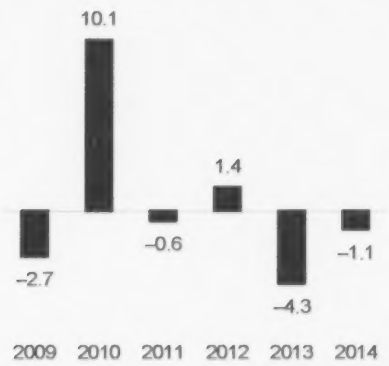
— The residential sector should stabilize in 2014 and housing starts should stand at 37 400 units.

Housing starts nonetheless currently outstrip the levels observed in the late 1990s when the figure was below 30 000 units a year.

Moreover, current low mortgage interest rates, which should rise only gradually in the coming quarters, and the measures that the Québec government has announced concerning green renovation, will promote stabilization in the Québec residential sector.

CHART B.8

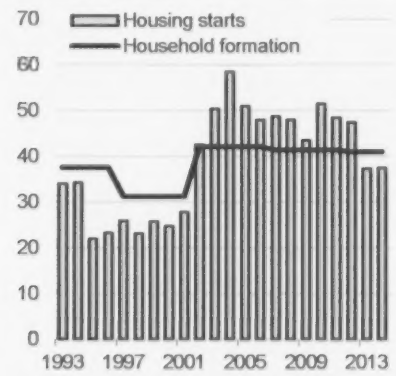
Residential investment in Québec
(percentage change, in real terms)



Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

CHART B.9

Housing starts and household formation in Québec
(thousands of units)



Sources: Institut de la statistique du Québec, Statistics Canada, Canada Housing and Mortgage Corporation and Ministère des Finances et de l'Économie du Québec.

A residential sector close to being balanced in Québec

Activity in the residential sector has slowed in Canada since mid-2012

Since July 2012, activity in the residential sector has slowed markedly in Canada, in particular in reaction to the introduction of new measures concerning insured mortgage loans, including the reduction in the maximum amortization period from 30 to 25 years.

- This is the fourth measure that the federal government has implemented since 2008 to limit the expansion of the residential sector.

In the wake of the coming into force of the latter measures, housing starts and sales of existing homes have contracted. However, since the second quarter of 2013, activity in the Canadian residential sector appears to have stabilized.

More significant adjustment in Québec

As is the case in the rest of Canada, Québec experienced a correction in terms of housing starts and sales of existing homes beginning in the second half of 2012. However, in relative terms, the correction has been bigger in Québec.

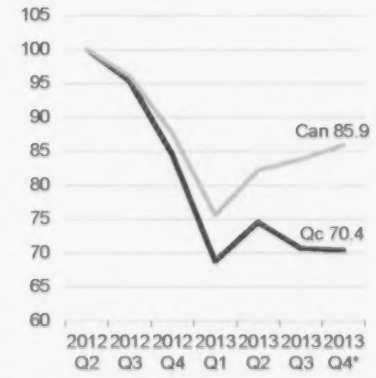
Furthermore, the ratio of sales to new listings in October 2013 indicates that the home resale market is close to being balanced in Québec while the Canadian market slightly favours sellers, putting upward pressures on prices elsewhere in Canada.

- In the first 10 months of 2013 in relation to the same period in 2012, the average prices of housing units on the home resale market increased by 4.3% in Canada and contracted by 0.2% in Québec.

Accordingly, the Québec residential sector shifted more quickly to a balanced situation. The introduction of new restrictive measures could further dampen the Québec real estate sector.

Changes in housing starts

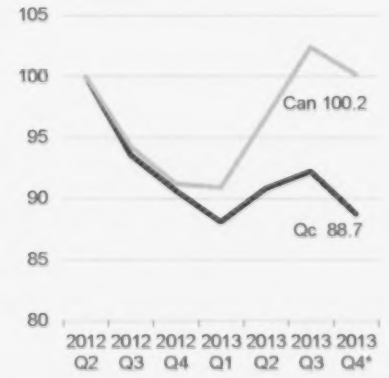
(index, 2nd quarter of 2012 = 100)



* Cumulative for the months available.
Sources: Canada Mortgage and Housing Corporation and Ministère des Finances et de l'Économie du Québec.

Changes in sales of existing homes

(index, 2nd quarter of 2012 = 100)



* Cumulative for the months available.
Sources: Canadian Real Estate Association and Ministère des Finances et de l'Économie du Québec.

A residential sector close to being balanced in Québec (continued)

Review of the key measures governing borrowing conditions for insurable mortgage loans in Canada

Date of coming into force		Borrowing rules and conditions
2004 to 2007	Relaxation of mortgage loan rules and conditions initiated by institutions operating on the mortgage insurance market and/or the federal government	
	Maximum amortization period	25 to 40 years
	Minimum down payment	5% to 0%
	Maximum amount for mortgage refinancing	85% to 95%
	Down payment threshold at which mortgage insurance is unnecessary	25% to 20%
2008 to 2012	Tightening by the federal government of mortgage lending rules	
2008	Maximum amortization period	40 to 35 years
	Minimum down payment	0% to 5%
2010	Maximum amount for mortgage refinancing	95% to 90%
2011	Maximum amortization period	35 to 30 years
	Maximum amount for mortgage refinancing	90% to 85%
2012	Maximum amortization period	30 to 25 years
	Maximum amount for mortgage refinancing	85% to 80%

Note: Compilation of the Ministère des Finances et de l'Économie du Québec.

1.6 Non-residential investments remain high

Non-residential investments, especially those of businesses, remain one of the key mainsprings of economic activity. Québec has benefited from robust growth in non-residential investment in recent years. While anticipated growth is less brisk, investments in 2013 and 2014 should remain high.

— The value of total non-residential investment should increase by 1.1% in 2013.

— In 2014, such growth should accelerate to 3.1%, bringing the value of non-residential investment to $56.0 billion.

❑ Government investments

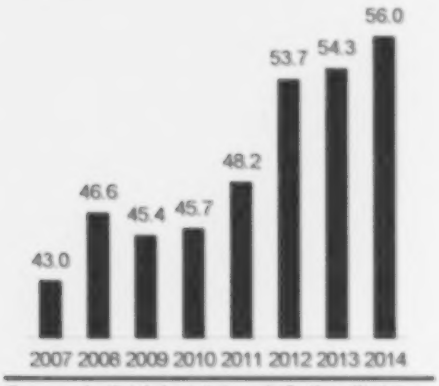
Governments, mainly the Québec government, will continue to maintain infrastructure investments at a high level.

— Investments by all public administrations will remain significant, totalling nearly $19 billion in the coming years.

— Accordingly, in 2013 and 2014, investments by all public administrations will exceed by nearly 50% the level of 2007.

CHART B.10

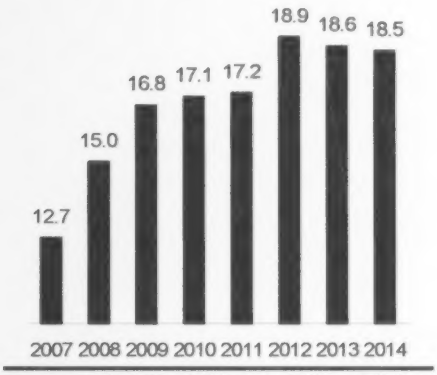
Total non-residential investment in Québec
(billions of dollars, in nominal terms)



Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

CHART B.11

Government investments in Québec
(billions of dollars, in nominal terms)



Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

❑ Non-residential business investment

Since 2011, Québec firms have taken the relay from governments in terms of non-residential investment, sustaining economic growth.

This trend will continue in 2013: non-residential business investment will rise by 2.5%.

In 2014, growth in non-residential business investment should accelerate and reach 5.2%.

On the whole, businesses continue to benefit from conditions that are favourable to expanding their stock of capital and increase their productivity:

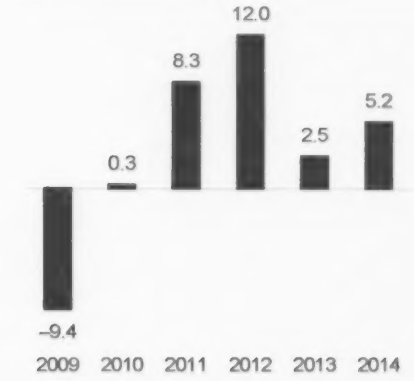
— the anticipated improvement in global economic growth will foster a more buoyant business climate;

— despite a downturn in profits, businesses will also continue to benefit from favourable financial conditions through highly advantageous interest rates.

What is more, in the wake of a brisk 14.0% increase in 2012, the value of investments in machinery and equipment will rise by 4.8% in 2013. In 2014, it should climb by 4.5%.

CHART B.12

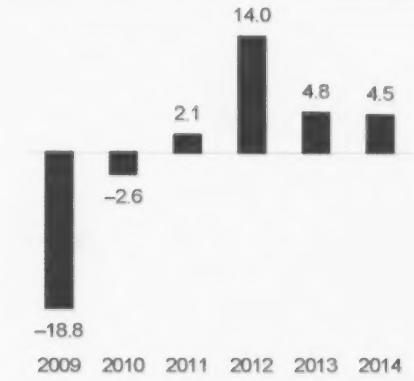
Non-residential business investment in Québec
(percentage change, in nominal terms)



Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

CHART B.13

Business investment in machinery and equipment in Québec
(percentage change, in nominal terms)



Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

Corporate profits: a drop in 2013 and an expected rally in 2014

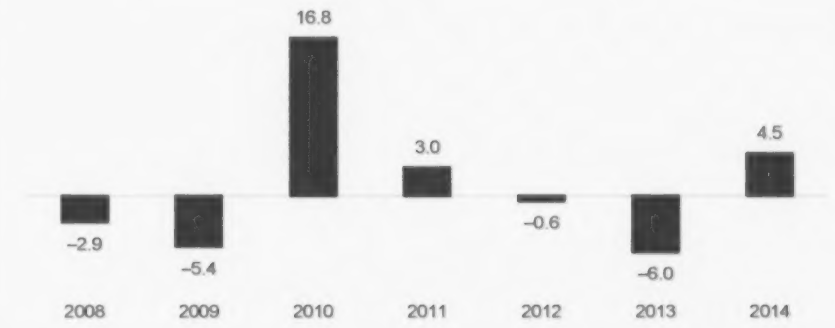
Since 2012, growth in corporate profits has been limited both in Québec and in Canada through the slow upturn in exports and moderate growth in consumption and prices.

- The sluggish growth recorded by Québec's main trading partners and stiff competition from emerging economies on foreign markets lowered the profits of Québec corporations in 2012 and 2013.
- Regarding domestic demand, moderate growth in consumption, linked to improvements in household balance sheets, and the faltering residential sector have also dampened growth in profits.

The situation should improve in the coming quarters as exports and household consumption revive.

- Indeed, stronger growth among Québec's main trading partners should lead to greater demand and higher prices for Québec export products.
- Growth in household spending should accelerate, in particular under the impetus of ongoing job creation, restored consumer confidence and more sustained growth in wages.

Net operating surplus of Québec corporations
(percentage change, in nominal terms)



Note: According to the new nomenclature used by Statistics Canada, the net operating surplus of corporations includes, in particular, the profits and investment income of businesses.
Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

1.7 External trade: exports continue to improve gradually

Québec's economy is open to the world. Exports account for 45% of Québec's GDP and the Québec economy is largely influenced by the situation of its trading partners.

Several external factors are putting a damper on Québec's exports, in particular:

— moderate economic growth in Canada and the United States;

— economic difficulties in the euro area;

— slower-than-anticipated growth in the emerging economies.

Despite a fragile international context, the value of Québec's exports rose 2.8% in the first half of 2013. Indeed:

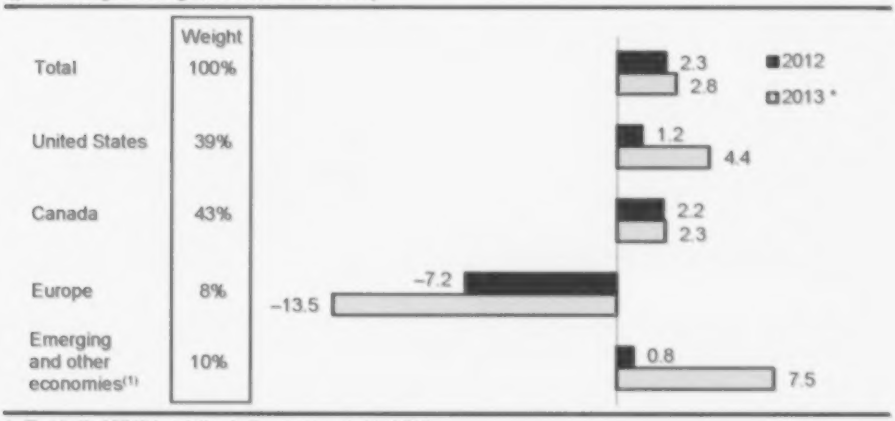
— after a difficult 2012, Québec's exports to the United States are reviving;

— exports to emerging economies, in particular China and India, continue to grow.

The influence of factors that have curbed exports should abate with the gradual acceleration of global growth. Accordingly, Québec will benefit, notably, from the strengthening of economic growth in the United States, which will further bolster exports.

CHART B.14

Québec goods exports by destination
(percentage change, in nominal terms)



* First half of 2013 in relation to the same period in 2012.
(1) Includes, in particular, China, Japan, Mexico, Brazil, India and Australia.
Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

❑ Exports

Total exports will gradually revive in 2013 and 2014 with the acceleration of economic growth in the United States and the gradual resolution of difficulties in Europe. What is more, the depreciation of the Canadian dollar, which stood on average at 100.1 U.S. cents in 2012 and should stand at 96.9 cents in 2013, favours Québec exports.

— Accordingly, exports in real terms will increase by 2.6% in 2013, in the wake of a 1.6% upturn in 2012.

— In 2014, they will continue to benefit from the strengthening of the world economy and the depreciation of the Canadian dollar. Growth in exports should accelerate to 2.9% in 2014.

❑ Imports

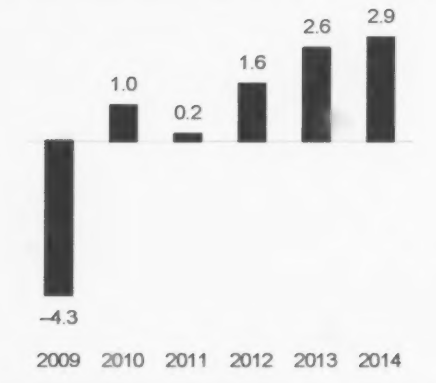
Québec mainly imports consumer goods, machinery and equipment and inputs for the manufacture of products.

— In 2013, imports will increase by only 1.6% in light of more modest growth in domestic demand.

— Growth in imports should stand at 2.3% in 2014, in keeping with more robust domestic demand and exports.

CHART B.15

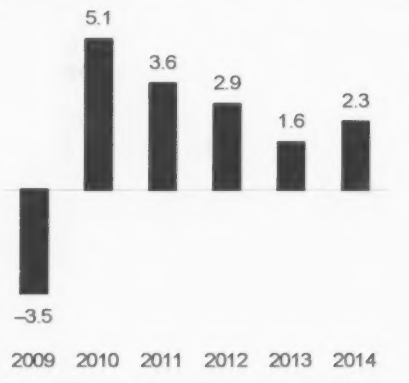
Québec's total exports
(percentage change, in real terms)



Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

CHART B.16

Québec's total imports
(percentage change, in real terms)



Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

International exports are slowly recovering

Québec exports have rebounded slowly since the trough of the recession.

- Since 2011, Québec's total exports in nominal terms have regained their pre-recession peak and surpassed it by 5% in 2013.
- On the other hand, in 2013, Québec's international goods exports, in nominal terms, are 5.2% below their pre-recession peak.

This result reflects cyclical factors such as the weakness of the global recovery and the strength of the Canadian dollar, but also structural factors such as stiffer competition from the emerging economies.

- Québec's market share in the United States has fallen from 3.0% in 2002 to 1.8% in 2012, while China's market share has risen from 10.8% in 2002 to 18.7% in 2012.

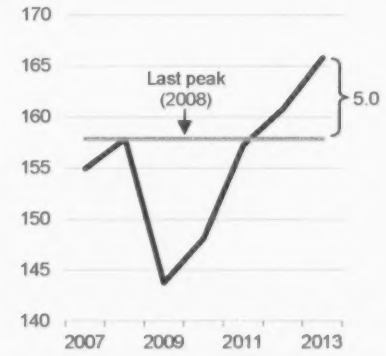
Furthermore, exports as a percentage of GDP are still below the level attained prior to the last recession.

- In 2012, total exports as a percentage of GDP stood at roughly 45%, compared with over 50% in 2007.
- It should be noted that, through its *Economic Policy: Putting Jobs First*, the government's objective is to raise the level of exports to over 55% of GDP.

The outlook for export growth is positive given renewed vigour in growth in Canada and the United States, the improved economic situation in Europe, and sustained demand from the emerging economies.

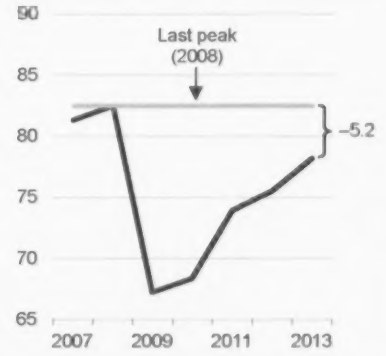
- In order to benefit from such prospects, Québec exporting firms must continue to invest to remain competitive in a context of stiffer international competition.

Total exports
(billions of dollars, in nominal terms)



Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

International goods exports
(billions of dollars, in nominal terms)



Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

❑ Net exports continue to rebound

Net exports, which take into account both changes in exports and imports, will make a positive 0.3 percentage point contribution to economic growth in 2013. In 2014, net exports should continue to positively affect economic growth.

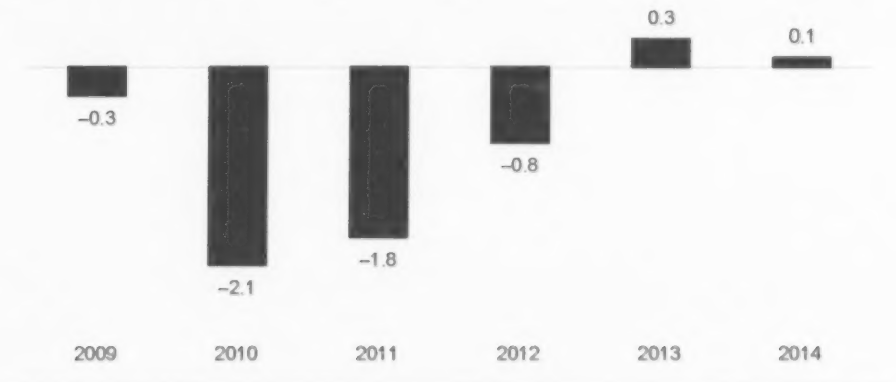
— In 2013, the positive contribution of the foreign sector stems from an acceleration in exports combined with dampened growth in imports.

— In 2014, the foreign sector will contribute positively but less markedly to growth in GDP.

This contribution nonetheless constitutes a significant improvement in relation to the situation observed in recent years when imports experienced more rapid growth than exports, thereby contributing negatively to growth in GDP.

CHART B.17

Contribution of net exports to growth in Québec's real GDP
(in percentage points)



Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

1.8 Comparison with private sector forecasts

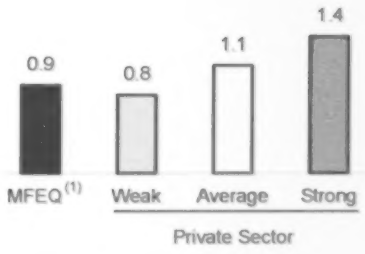
The economic growth forecast of the Ministère des Finances et de l'Économie du Québec for 2013 and 2014 falls slightly below the average of private sector forecasts.

— In 2013, the forecast 0.9% growth in real GDP is slightly below the 1.1% average private sector forecast.

— Growth of 1.8% is anticipated for 2014, compared with the 1.9% average private sector forecast.

CHART B.18

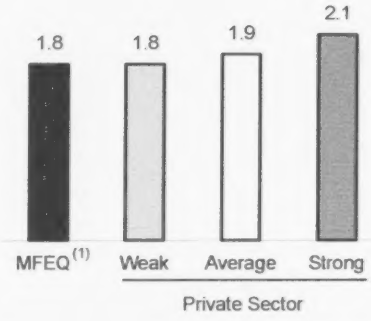
Economic growth in Québec in 2013
(real GDP, percentage change)



(1) Ministère des Finances et de l'Économie du Québec.
Source: Ministère des Finances et de l'Économie du Québec summary as of November 20, 2013, which includes the forecasts of 10 private sector institutions.

CHART B.19

Economic growth in Québec in 2014
(real GDP, percentage change)



(1) Ministère des Finances et de l'Économie du Québec.
Source: Ministère des Finances et de l'Économie du Québec summary as of November 20, 2013, which includes the forecasts of 10 private sector institutions.

TABLE B.3

Québec's economic outlook – November 2013 forecasts
(percentage change, unless otherwise indicated)

	2012	2013	2014
Output			
Real gross domestic product	1.5	0.9	1.8
– *March 2013*		*1.3*	*1.8*
Nominal gross domestic product	3.6	2.1	3.6
– *March 2013*		*3.6*	*3.9*
Components of GDP (in real terms)			
Household consumption	1.2	1.8	2.0
– *March 2013*		*1.8*	*2.1*
Government spending and investment	1.3	0.1	0.5
– *March 2013*		*0.3*	*0.6*
Residential investment	1.4	–4.3	–1.1
– *March 2013*		*–4.6*	*–1.1*
Non-residential business investment	10.6	0.9	2.9
– *March 2013*		*2.0*	*3.7*
Exports	1.6	2.6	2.9
– *March 2013*		*2.8*	*3.0*
Imports	2.9	1.6	2.3
– *March 2013*		*2.3*	*2.4*
Labour market			
Job creation (thousands)	30.8	44.6	39.8
– *March 2013*		*44.5*	*36.5*
Unemployment rate (%)	7.8	7.7	7.6
– *March 2013*		*7.5*	*7.4*
Other economic indicators			
Nominal household consumption	2.9	2.8	3.5
– *March 2013*		*3.4*	*3.6*
Wages and salaries	3.7	2.9	3.5
– *March 2013*		*3.5*	*3.4*
Household income	4.1	2.9	3.4
– *March 2013*		*3.5*	*3.5*
Net operating surplus of corporations[1]	–0.6	–6.0	4.5
– *March 2013*		*4.9*	*7.0*
Consumer prices	2.1	0.9	1.8
– *March 2013*		*1.6*	*1.9*

(1) According to the new nomenclature used by Statistics Canada, the net operating surplus of corporations includes, in particular, the profits and investment income of businesses.

Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

1.9 Five-year economic outlook for 2013-2017

The five-year forecast of the Ministère des Finances et de l'Économie du Québec is comparable to that of the private sector regarding real GDP growth, price increases and nominal GDP growth.

— Real GDP is expected to grow at an average rate of 1.6% from 2013 to 2017, compared with the private sector forecast of 1.7%.

— Nominal GDP is expected to grow at an average rate of 3.4% from 2013 to 2017, compared with the private sector forecast of 3.5%.

TABLE B.4

Economic outlook for Québec – Comparison with the private sector
(percentage change)

	2013	2014	2015	2016	2017	Average 2013-2017
Real GDP						
Ministère des Finances et de l'Économie du Québec	0.9	1.8	1.8	1.8	1.7	1.6
Average in the private sector	1.1	1.9	2.2	1.9	1.8	1.7
Price increases						
Ministère des Finances et de l'Économie du Québec	1.3	1.8	2.0	1.9	1.9	1.8
Average in the private sector	1.2	1.6	1.9	1.9	1.8	1.7
Nominal GDP						
Ministère des Finances et de l'Économie du Québec	2.1	3.6	3.9	3.7	3.6	3.4
Average in the private sector	2.3	3.6	4.0	3.8	3.6	3.5

Note: Since figures are rounded, the average may differ from indicated results.
Source: Ministère des Finances et de l'Économie du Québec summary as of November 20, 2013, which includes the forecasts of 10 private sector institutions.

2. THE SITUATION OF QUÉBEC'S MAIN ECONOMIC PARTNERS

The Québec economy is open to the world and strongly integrated into the North American economy. While Québec has diversified its trade with Asia and Europe in recent years, Canada and the United States are still its main trading partners and their situation significantly affects the development of the Québec economy.

The following sections focus on the economic outlook in Canada and the United States.

❑ Growth has slowed in Canada and the United States

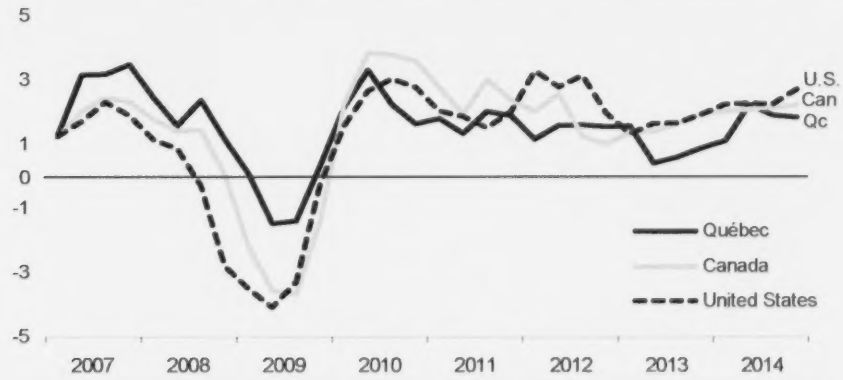
Slower growth in the main North American economies has been observed.

— In the United States, economic growth in 2013 was limited by budget consolidation measures implemented at the beginning of the year and the partial shutdown of federal government operations in the fourth quarter. Growth in real U.S. GDP should thus slow to 1.6% in 2013, compared with growth of 2.8% in 2012. Growth in the U.S. economy should accelerate to 2.4% in 2014.

— In Canada, the economy grew moderately in 2013 and growth will stand at 1.6%, i.e. 0.1 percentage point less than what was observed in 2012. Economic growth in Canada should accelerate to 2.1% in 2014.

CHART B.20

Economic growth in Québec, Canada and the United States
(real gross domestic product, quarterly data, annual change as a percentage)



Sources: Statistics Canada, Institut de la statistique du Québec, IHS Global Insight and Ministère des Finances et de l'Économie du Québec.

2.1 Moderate growth in economic activity in Canada

In 2013, economic activity in Canada grew at a moderate pace. Growth in real GDP will reach 1.6%, equivalent to the growth observed in 2012.

— Economic growth in Canada was limited in 2013 by moderate changes in consumption and business investment and the slowdown in the residential sector. Furthermore, the international context is less favourable to exports.

Canada's economic outlook will brighten in 2014 when real GDP should grow by 2.1%.

— Growth in household consumption spending will continue at a moderate pace.

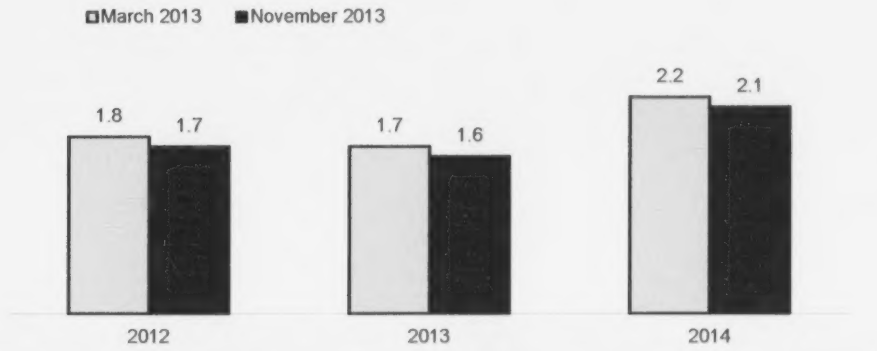
— The gradual improvement in the global economy will further stimulate Canadian exports and business investment.

Moreover, the downturn in the residential sector that began in the second half of 2012 should continue. In addition, the pursuit of control of government spending in a context where several provinces and the federal government are seeking to restore balance in public finances will limit economic growth.

Growth in nominal GDP is also slower than anticipated. After reaching 3.4% in 2012, growth in Canada's nominal GDP will slow to 3.0% in 2013 and should increase by 3.9% in 2014.

CHART B.21

Economic growth in Canada
(real GDP, percentage change)



Sources: Statistics Canada and Ministère des Finances et de l'Économie du Québec.

❑ Household consumption and the labour market

Real consumer spending will increase by 2.2% in 2013 and by 2.3% in 2014. A robust labour market will sustain consumption.

— In 2013, 225 000 jobs will be created, and 194 000 jobs should be created in 2014, which represents growth of 1.3% and 1.1%, respectively, for the two years.

— With ongoing job creation, the unemployment rate will continue to fall, from 7.2% in 2012 to 7.1% in 2013 and 6.9% in 2014.

In nominal terms, growth in consumption will reach 3.2% in 2013, an increase similar to that of 3.3% observed in 2012. It will accelerate to 3.8% in 2014.

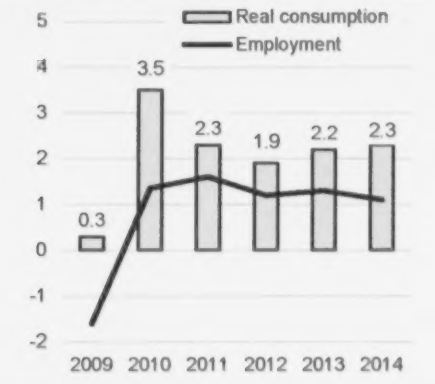
❑ Residential investment

While low interest rates are sustaining demand, the introduction by the federal government of successive measures to tighten mortgage lending rules has led to a slowdown followed by a contraction of residential construction in Canada.

— Following a 6.1% increase in 2012, Canadian residential investment will fall by 1.5% in 2013. This trend should continue in 2014, when residential investments are expected to contract by 3.3%.

CHART B.22

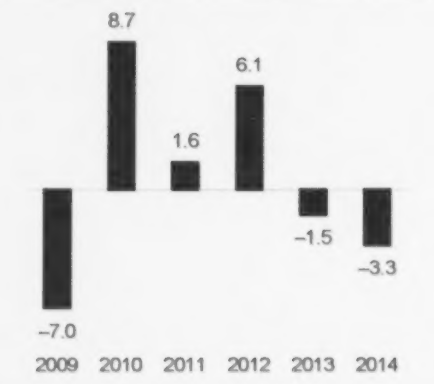
Job creation and consumer spending in Canada
(percentage change)



Sources: Statistics Canada and Ministère des Finances et de l'Économie du Québec.

CHART B.23

Residential investment in Canada
(percentage change, in real terms)



Sources: Statistics Canada and Ministère des Finances et de l'Économie du Québec.

The stabilization of the Canadian residential sector

The residential sector has been very dynamic since 2002

The Canadian residential sector has experienced brisk activity since 2002.

- The number of housing starts rose from an average of 147 100 units per year between 1991 and 2001 to 208 800 units, on average, between 2002 and 2012.
- The levels exceed household formation, which stood, on average, at roughly 177 000 households per year during the latter period.

This situation led to some accumulation of unsold new housing stock, especially multi-dwelling structures.

Furthermore, despite a downturn in 2013, housing starts should stand at nearly 189 000 units, a level that still outstrips household formation.

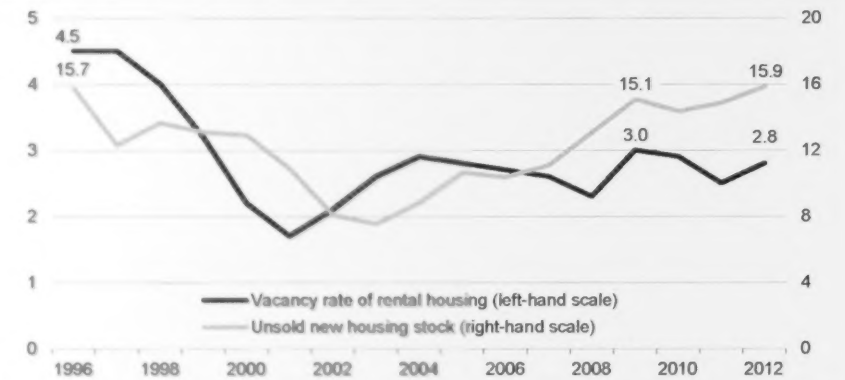
However, in the case of rental housing units, the increase in housing starts was beneficial since the vacancy rate, which was very low in the early 2000s, has risen in recent years. It now stands at 2.8%, near its equilibrium level of 3.0%.

Concerning the average price of existing homes, it rose by 7.0% a year between 2002 and 2012, a growth rate that outstripped growth of household income.

- However, low interest rates meant that properties remained relatively affordable.
- Nonetheless, should mortgage rates rise significantly or Canadian household incomes falter, the accessibility of properties might be curtailed.

In this context, to avoid significant overheating in the residential sector, a gradual slowdown in activity and in price increases is desirable, notably in certain urban areas in Canada.

Vacancy rate and unsold new housing stock
(percentage rate and stock in thousands)



Sources: Canada Mortgage and Housing Corporation, Canadian Real Estate Association and Ministère des Finances et de l'Économie du Québec.

❑ Non-residential business investment

After rising at a sustained pace in recent years, growth in the value of non-residential business investment will slow to 2.8% in 2013. In 2014, such investment should again accelerate to 4.9% following growth in domestic demand and a strengthening global economy.

Certain factors in 2013 led businesses to postpone their investment projects.

— Notably, the global climate of uncertainty, which has reduced growth in demand and reduced corporate profits.

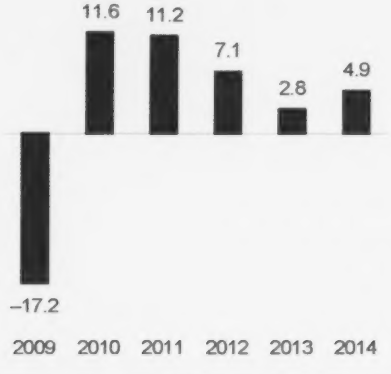
❑ Government investments

Although growth in public investments will be moderate in the coming years, the value of infrastructure investments will remain high.

— In the wake of a 2.8% increase in 2012, the value of government investments will rise by 1.8% in 2013. In 2014, such growth should stand at 2.9%.

CHART B.24

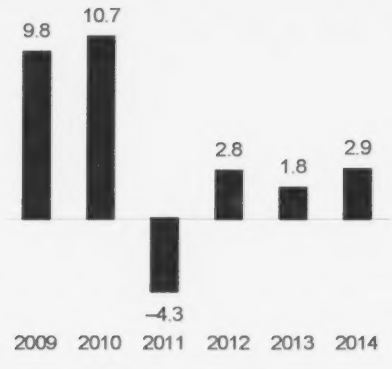
Non-residential business investment in Canada
(percentage change, in nominal terms)



Sources: Statistics Canada and Ministère des Finances et de l'Économie du Québec.

CHART B.25

Government investments in Canada
(percentage change, in nominal terms)



Sources: Statistics Canada and Ministère des Finances et de l'Économie du Québec.

❑ External trade

Growth in Canadian exports will remain modest in 2013. It will further intensify in 2014, in particular with the anticipated revival in growth in the United States.

— Indeed, exports will increase by only 1.3% in 2013, especially because of the fragile international economic situation. Furthermore, imports will increase only slightly against the current backdrop of moderate growth in household consumption and business investment.

These factors should gradually disappear with the anticipated improvement in the global economy and the expected upturn in domestic demand. This situation will facilitate a rally in international trade with exports that should increase by 3.7% in 2014, while imports should climb by 2.6%.

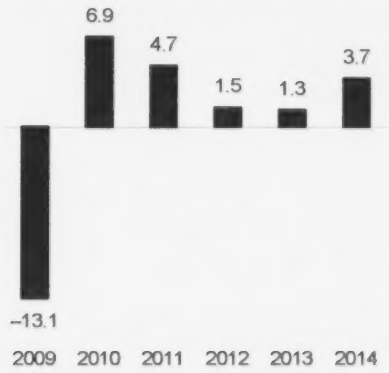
Accordingly, net exports should contribute positively to economic growth in Canada starting in 2014.

— This situation constitutes a significant improvement in relation to the one observed in recent years when imports experienced more rapid growth than exports.

CHART B.26

Canadian exports

(percentage change, in real terms)

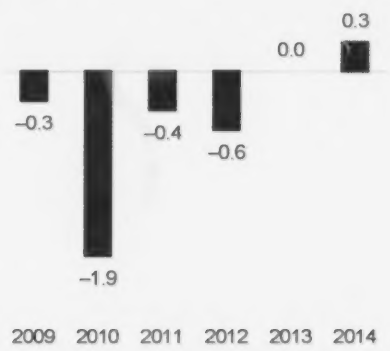


Sources: Statistics Canada and Ministère des Finances et de l'Économie du Québec.

CHART B.27

Contribution of net exports to growth in Canada's real GDP

(in percentage points)



Sources: Statistics Canada and Ministère des Finances et de l'Économie du Québec.

❑ Oil prices

While oil prices have fluctuated in 2013, they have resisted better than other commodities to the slowdown in emerging economies and sluggish growth in advanced economies.

The price of North American oil, WTI, rose 27.0% between mid-April and late August 2013 because of stronger demand from refineries and a net increase in transportation capacity, in particular by oil pipeline and rail in North America.

— These factors have helped to significantly reduce oil surpluses from the U.S. Midwest and narrow the spread that has existed for nearly three years between the prices of a barrel of Brent and WTI oil.

— The spread fell from nearly US$18, on average, in the first quarter of 2013, to roughly US$4 in the third quarter, before increasing once again toward the end of the year. It should stand at an average of US$7 in 2014.

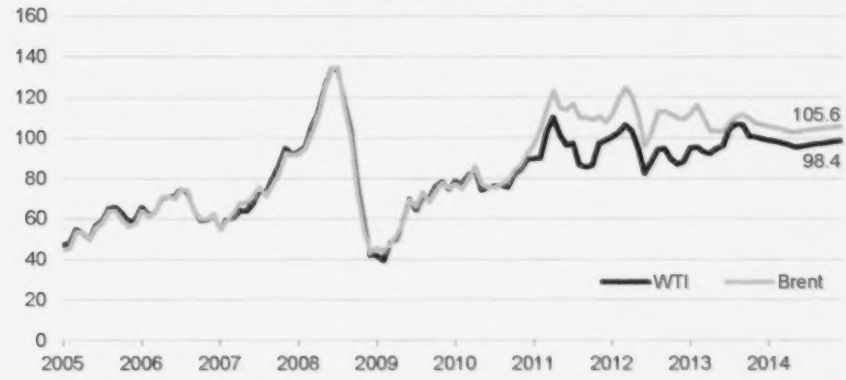
Moderate growth in the global economy, a degree of stabilization in geopolitical tensions and the still increasing production of crude oil in North America should foster some stability in oil prices.

— The International Energy Agency estimates that the increase in oil production in North America will contribute to nearly 40% of growth in global production in the next five years.

The price of a barrel of Brent oil should average US$108 in 2013 and fall back to US$104 in 2014. The price of WTI oil should stand at just under US$100, on average, in 2013 and in 2014.

CHART B.28

Price of WTI and Brent oil
(U.S. dollars per barrel, monthly averages)



Sources: Bloomberg and Ministère des Finances et de l'Économie du Québec.

❑ The Canadian dollar

The Canadian dollar will remain under parity with the U.S. dollar in the coming quarters. It should stand at an average of 96.9 U.S. cents in 2013 and 95.6 U.S. cents in 2014.

After maintaining, on average, parity with the greenback in 2012, the loonie has remained below parity since February 2013. It depreciated more extensively during the summer. In early July, it reached its lowest point in nearly three years, at 94.5 U.S. cents.

— The depreciation of the Canadian dollar in 2013 is partly attributable to the sound performance of the U.S. dollar because of continuing economic growth in the United States and the expectation that the Federal Reserve will slow the pace of its asset purchases.

— Furthermore, the persistence of the slowdown in the emerging economies has led to lower prices for commodities, which has weighed on the value of the loonie.

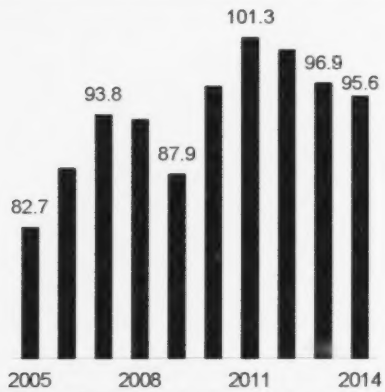
The Canadian dollar should continue its depreciation until the second quarter of 2014. It should then rise while remaining below parity with the greenback, in anticipation of monetary tightening in Canada, which should occur in the first quarter of 2015.

— Demand from foreign investors for Canadian financial assets stemming, in particular, from positive spreads between short-term Canadian and U.S. interest rates, should also sustain the loonie.

CHART B.29

Canadian dollar exchange rate

(annual averages, in U.S. cents)

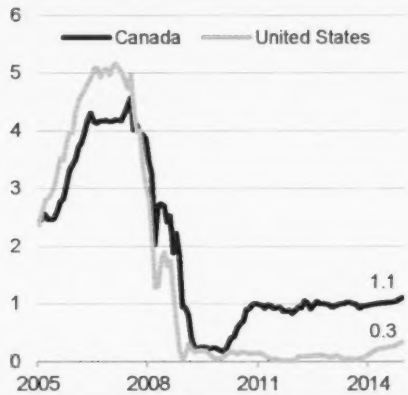


Sources: Bloomberg and Ministère des Finances et de l'Économie du Québec.

CHART B.30

Yields on three-month Treasury bills

(as a percentage)



Sources: Statistics Canada, IHS Global Insight and Ministère des Finances et de l'Économie du Québec.

❑ Financial conditions continue to be favourable

The prospect of low inflation in the coming quarters will encourage the Bank of Canada to maintain its accommodative monetary policy for an extended period.

— In light of this, the Bank of Canada should not raise its key interest rate before the first quarter of 2015.

Important fluctuations have been observed recently on the bond market, linked principally to communications from the Federal Reserve (Fed), which rose in May the possibility of slowing the pace of its asset purchases before the end of the year. It ultimately opted for the status quo in September at a time when a number of financial market participants anticipated a reduction in its program.

Accordingly, after rising significantly between late May and mid-September, the yield on Canadian 10-year bonds has since fallen slightly, to 2.4% in October.

Consequently, yields on the Canadian bond market are at levels similar to those that were forecast in March 2013.

Since monetary policy in Canada will remain expansionary for an extended period, bond yields will only rise gradually in the coming quarters, in keeping with the gradual recovery anticipated in economic growth in Canada. In 2014, they will nonetheless be slightly higher than forecast in the spring because of the impending slowdown in the pace of asset purchases by the Fed.

— The yield on federal 10-year bonds should stand, on average, at 2.3% in 2013 and 3.3% in 2014.

TABLE B.5

Canadian financial markets – November 2013 forecasts
(percentage, unless otherwise indicated)

	2011	2012	2013	2014
Target for the overnight rate	1.0	1.0	1.0	1.0
– *March 2013*			*1.0*	*1.4*
3-month Treasury Bills	0.9	1.0	1.0	1.0
– *March 2013*			*1.0*	*1.4*
10-year bonds	2.8	1.9	2.3	3.3
– *March 2013*			*2.3*	*3.2*
Canadian dollar (in U.S. cents)	101.3	100.1	96.9	95.6
– *March 2013*			*98.8*	*99.6*

Sources: Statistics Canada, Bloomberg and Ministère des Finances et de l'Économie du Québec.

2.2 The economic situation in the United States

❑ Dampened economic growth in 2013

In the wake of a 2.8% increase in 2012, growth in real U.S. GDP should slow to 1.6% in 2013, and then accelerate to 2.4% in 2014. This marks a downward adjustment of 0.2 percentage point in 2013 and 0.1 percentage point in 2014 in relation to the economic growth forecast in March 2013.

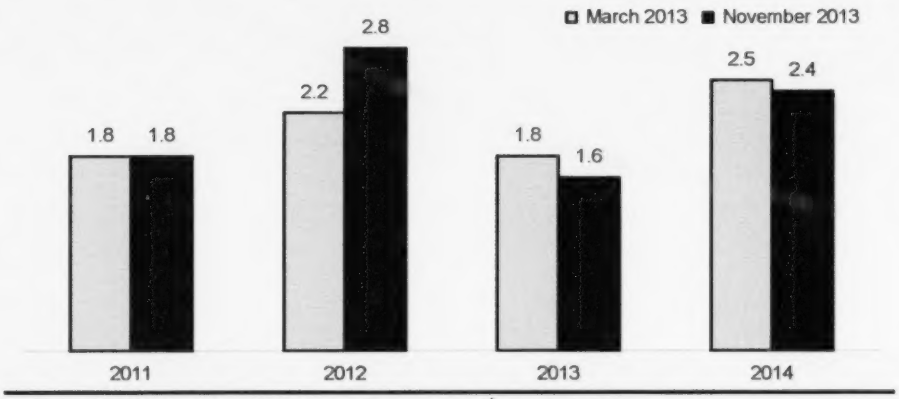
— The adjustment stems, in particular, from the impact of budget consolidation measures implemented in the first quarter of 2013, which affected economic growth. Uncertainty stemming from fiscal policy and the partial shutdown of U.S. federal government operations in the fourth quarter of 2013 also curtailed growth.

In 2014, the mitigation of the adverse impact of budgetary consolidation measures and the effect of uncertainty surrounding fiscal policy should facilitate the gradual acceleration of economic activity.

The private sector, which has continued to grow in 2013 despite tax increases and spending cuts that led to the public sector's negative contribution to growth, will mainly foster the expansion of the U.S. economy. The favourable financial situation of households and businesses will spur consumption and investments in 2014 and the residential sector will continue to recover.

CHART B.31

Economic growth in the United States
(real GDP, percentage change)



Sources: IHS Global Insight and Ministère des Finances et de l'Économie du Québec.

Uncertainty persists over U.S. fiscal policy

Political divisions in the U.S. Congress led in October 2013 to a shutdown of non-essential federal government services lasting over two weeks. The ensuing arduous negotiations aimed at raising the limit on the debt ceiling before the government's borrowing authority expired on October 17, 2013 fanned uncertainty concerning the U.S. government's solvency.

An agreement was reached on October 16, 2013, which renewed budgetary deadlines in the U.S. for a short period.

- The direction of such negotiations, as the new deadlines approach in the first quarter of 2014, is uncertain.

Partial shutdown of U.S. federal government operations in October 2013

September 30, 2013 marked the expiry of provisional legislation to allow federal government agencies to obtain the funds necessary to cover a number of so-called non-essential operations.

- Having failed to reach an agreement on such legislation in time, the U.S. federal government had to halt part of its operations from October 1 to 16, 2013, which led to the temporary layoff of over 800 000 civil servants during the first week and more than 350 000 subsequently.

The partial shutdown of the U.S. federal government operations should have an adverse impact on economic activity in the fourth quarter of 2013.

- Aside from the temporary layoff of federal government employees and the interruption of certain government-related private-sector activities, the uncertainty that the political context delayed certain investment and consumption decisions.

A temporary budget bill was adopted, thereby postponing the budgetary deadlines to the first quarter of 2014

In the wake of intense negotiations in the U.S. Congress, President Barack Obama signed, on October 17, 2013, a budget bill that ended the impasse.

- The budget bill raises the debt ceiling until February 7, 2014 and renews spending authority until January 15, 2014.

- Accordingly, a new provisional budget bill must be adopted as of January 16, 2014, failing which non-essential federal government services in the U.S. might again be temporary shutdown.

- In addition, within the framework of the bill, Republican and Democratic members of Congress have a mandate to reach agreement on a long-term deficit reduction plan.

While the progress of negotiations on the eve of the deadlines is uncertain, an agreement reached within the prescribed time that defers new budgetary deadlines beyond 2014 is now the most likely scenario.

❑ Moderate growth in consumption

After rising 2.2% in 2012, growth in consumption should stand at 1.9% in 2013, and then increase to 2.2% in 2014.

— The fiscal consolidation measures implemented in early 2013 led to a reduction in household disposable income, which fell by 7.9% in the first quarter of 2013, the biggest drop since 2008.

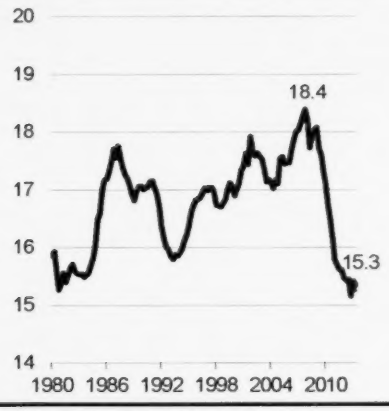
However, the financial situation of households improved considerably following a lengthy period of deleveraging in the wake of the last recession. An accommodative monetary policy and the gradual appreciation of the value of real estate and stock market assets have fostered this improvement.

— At the end of 2012, the household-debt-to-disposable-income ratio[1] stood at a historically low level. In the second quarter of 2013, net household wealth stood at six times the disposable income, reaching the 2002-2007 average.

Consumption should continue to benefit from such change and improvements in the labour market, which should lead to an acceleration in the pace of job creation and a reduction in the unemployment rate.

CHART B.32

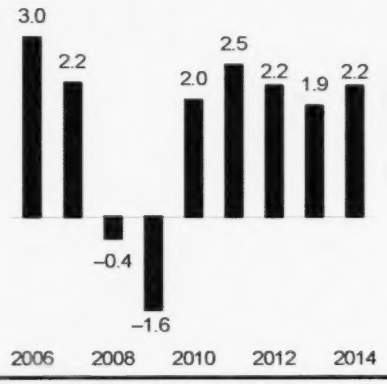
Debt ratio of households
(as a percentage of personal disposable income)



Source: IHS Global Insight.

CHART B.33

Consumption
(percentage change, in real terms)



Sources: IHS Global Insight and Ministère des Finances et de l'Économie du Québec.

[1] Includes mortgage payments, consumer debt, automobile leasing, taxes and property insurance, and the rent paid by renter households.

❑ A gradual increase in employment

The sequester, i.e. the automatic cuts in U.S. federal government spending, which came into force on March 1, 2013, curbed job creation in the government sector. Moreover, uncertainty surrounding U.S. fiscal policy put a damper on hiring by private sector enterprises.

— The increase in employment has remained moderate since early 2013, ranging from the average monthly creation of 207 000 jobs in the first quarter to 163 000 jobs in the third quarter.

The unemployment rate has fallen by 0.5 percentage point since the end of 2012 and stood at 7.3% in the third quarter of 2013. However, it still exceeds the pre-recession trough, when it hovered around 4%.

— The rapid drop in the unemployment rate has nonetheless been accompanied by a 0.4 percentage point reduction in the labour force participation rate[2] during this period because of limited growth in the labour force.

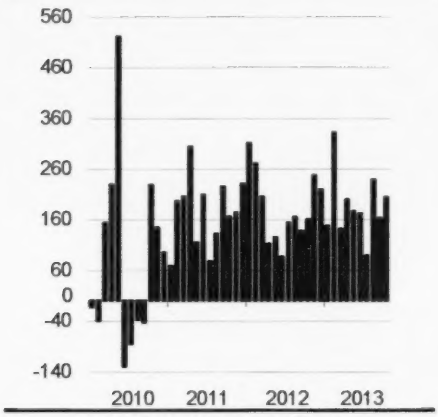
In 2014, reduced uncertainty surrounding the fiscal situation and stronger private investments should sustain job creation and the reduction in the unemployment rate.

— Following growth of 1.2% in 2011 and 1.7% in 2012, growth in employment in the United States should stand at 1.6% in 2013 and 2014. The unemployment rate should fall to 7.5% in 2013 to 7.2% in 2014.

CHART B.34

Job creation

(thousands, monthly data)

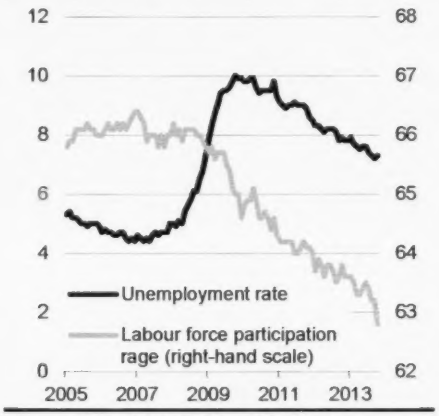


Sources: IHS Global Insight and Ministère des Finances et de l'Économie du Québec.

CHART B.35

Unemployment rate and labour force participation rate

(as a percentage, monthly data)



Sources: IHS Global Insight and Ministère des Finances et de l'Économie du Québec.

[2] Ratio of the labour force (individuals at work or who are seeking work) to the working-age labour force (population 16 years of age or over).

❑ The climate of uncertainty has affected business investment

In early 2013, uncertainty surrounding the federal government's budget restrictions and the slowdown in the world economy curbed business investment. Growth in business investment should remain moderate in the second half of 2013. The partial shutdown of federal government operations should adversely affect business confidence.

— Following a 7.3% increase in 2012, business investment should only grow by 2.2% in 2013.

— Business investment should then rise by 4.8% in 2014 with reduced uncertainty surrounding the fiscal situation and the strengthening of global economic growth.

Furthermore, U.S. businesses will continue to rely on substantial liquidities resulting from their enhanced profitability and financing costs that are still highly advantageous.

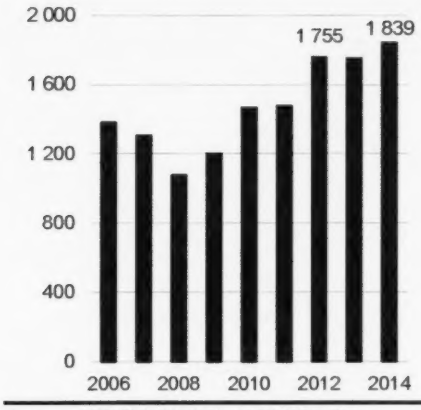
— In nominal terms, after-tax profits, which exceeded in 2012 by 27.4% their pre-recession peak, should remain high in 2013 and 2014.

— The highly accommodative monetary policy that the Federal Reserve is maintaining will continue, in particular, to foster the financing of new investment projects.

CHART B.36

After-tax profits of businesses in the United States

(billions of U.S. dollars, in nominal terms)

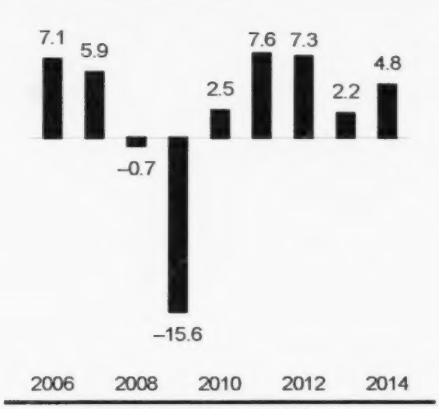


Sources: IHS Global Insight and Ministère des Finances et de l'Économie du Québec.

CHART B.37

Business investment

(percentage change, in real terms)



Sources: IHS Global Insight and Ministère des Finances et de l'Économie du Québec.

❑ Sustained growth in residential investments

Recovery in the residential sector, which began in 2011, should continue. After rebounding by 12.9% in 2012, residential investments should increase by 14.0% in 2013 and 2014.

— The sector should also contribute significantly to growth in real U.S. GDP, i.e. 0.4 percentage point in 2013 and 2014.

The recent increase in mortgage rates should not significantly affect changes in the residential sector. Mortgage rates remain at historically low levels and growth in the residential sector should be fostered by:

— the relatively low stock of homes for sale;

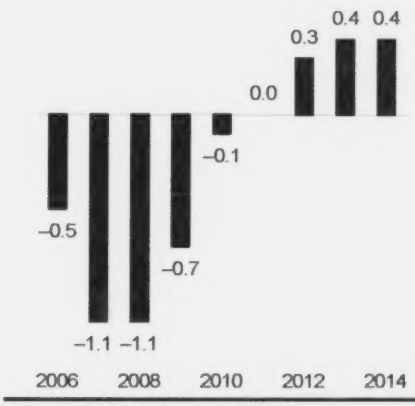
— acceleration in the pace of household formation stemming, among other things, from the improved economic situation and more robust job creation.

This context should facilitate housing starts, which bottomed out at 0.6 million units in 2009, to rise to 0.9 million units in 2013 and 1.2 million units in 2014.

— Those levels are still significantly lower than those observed before the real estate bubble burst in the United States.

CHART B.38

Residential investment
(contribution to growth in real GDP, as a percentage)

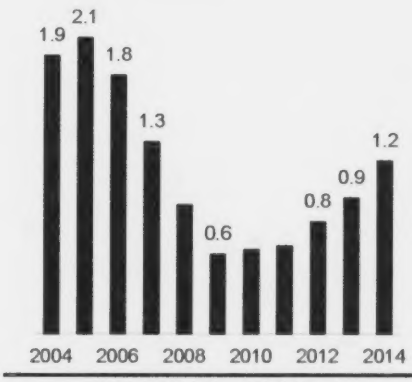


Sources: IHS Global Insight and Ministère des Finances et de l'Économie du Québec.

CHART B.39

Housing starts

(in millions of units)



Sources: IHS Global Insight and Ministère des Finances et de l'Économie du Québec.

❑ The government sector is hampering growth

In early 2013, the sequester, i.e. substantial automatic cuts in U.S. federal government spending, came into force. The cuts were followed in October 2013 by the partial shutdown of U.S. federal government operations because of difficult negotiations in Congress.

The federal government's fiscal consolidation should continue in the coming years against a backdrop of strong polarization in the U.S. political establishment concerning the conduct of fiscal policy.

— Spending by all levels of government should, accordingly, decline, in real terms, by 2.1% in 2013 and 1.4% in 2014.

Such consolidation should also lead to a significant reduction in the U.S. budget deficit.

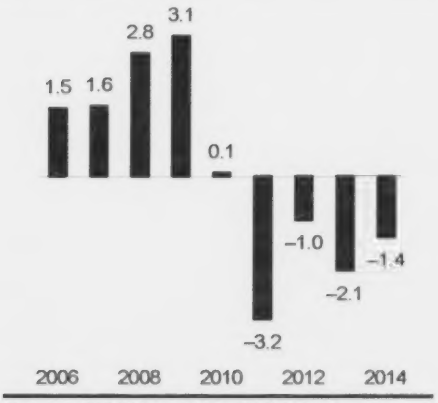
— The austerity measures adopted have already markedly reduced the federal public deficit, which fell from 6.8% of GDP in 2012 to 4.1% of GDP in 2013.

Against a backdrop of budget stringency, the Federal Reserve should pursue its highly accommodative monetary policy for an extended period to ensure a durable economic recovery.

— The Federal Reserve should maintain its very low interest rate policy at least until the second half of 2015. It should, nonetheless, begin in the near future to reduce its asset purchases and adjust the pace of its withdrawal in light of the changing U.S. economy.

CHART B.40

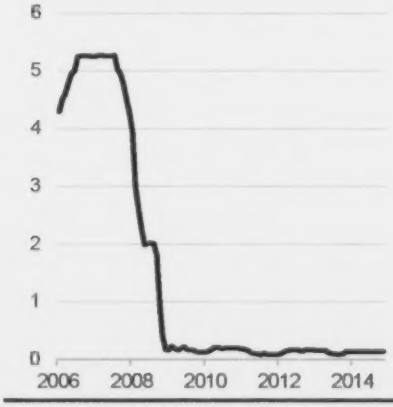
Government spending
(percentage change, in real terms)



Sources: IHS Global Insight and Ministère des Finances et de l'Économie du Québec.

CHART B.41

Monetary policy
(rates on federal funds, as a percentage)



Sources: IHS Global Insight and Ministère des Finances et de l'Économie du Québec.

The Federal Reserve slowing the pace of its asset purchases

Since 2007, the Federal Reserve (Fed) has adopted several measures to combat the economic recession and the financial crisis, then to sustain economic recovery.

- In order to lower long-term interest rates, especially in order to stimulate investments, the Fed has engaged in large scale asset purchases since 2008. Its monthly purchases of assets have stood at US$85 billion since January 2013.

The Fed Chairman, Ben Bernanke, stated in the spring of 2013 that the pace of such purchases could slow by the end of the year. In September, the Fed caused some degree of surprise by maintaining the pace of asset purchases unchanged.

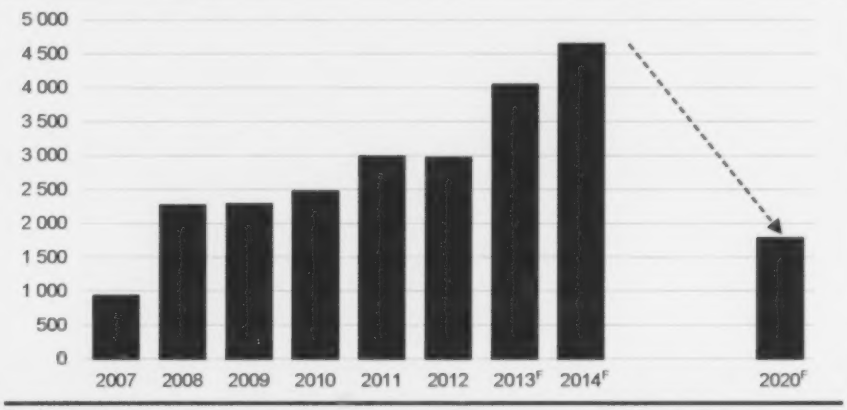
- In light of the impact of the partial shutdown of federal government operations in the fourth quarter of 2013, the Fed should not modify its asset purchase policy before the first quarter of 2014.

The reduction in the pace of asset purchases should, therefore, occur gradually in 2014 and might be adjusted in light of the evolution of the economy.

- Once the Fed ceases to purchase assets, it should maintain intact for some time the size of its balance sheet by reinvesting funds from expired assets. During a third stage, which may occur in 2015, such reinvestment will end and the size of the balance sheet will gradually decline as the bonds that it holds mature.

The asset purchase programs implemented in recent years by the Fed should swell the size of its balance sheet to over US$4 600 billion in 2014. The Fed will gradually reduce its balance sheet to roughly US$1 800 billion in 2020.

Size of the Federal Reserve's balance sheet
(in billions of US dollars)



F: Forecasts.
Sources: Federal Reserve and Ministère des Finances et de l'Économie du Québec.

Source: Seth B. CARPENTER, *et al*, *The Federal Reserve's Balance Sheet and Earnings: A Primer and Projections*, Finance and Economics Discussion Series No. 2013, Federal Reserve Board, September 2013.

❑ A gradual reduction in the trade deficit

Although gradual acceleration in the growth of emerging economies was anticipated starting in 2013, such growth was instead similar to that in 2012 and stood at 4.6%. This moderate growth and the difficult economic situation in Europe have limited the contribution of the foreign sector to growth in real U.S. GDP in 2013.

— Following a 3.5% increase in real terms in 2012, exports should rise by 2.5% in 2013 and by 5.4% 2014.

The anticipated acceleration in international trade in 2014, stemming from an upswing in global economic activity, should nonetheless support U.S. exports.

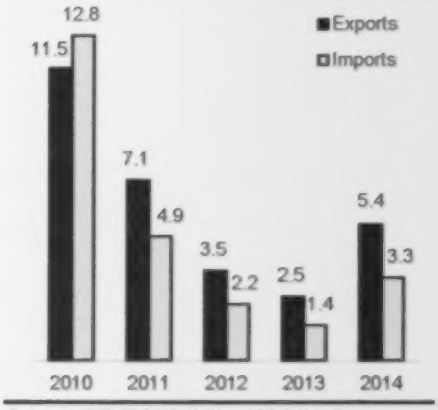
Moreover, more robust domestic demand, resulting from more vigorous job creation and growth in business investment, should further support growth in imports.

— Real imports should, accordingly, increase by 1.4% in 2013 and by 3.3% in 2014.

While exports will grow more significantly than imports, the U.S. trade deficit in real terms should decline gradually, from 2.6% of GDP in 2013 to 2.4% of GDP in 2014.

CHART B.42

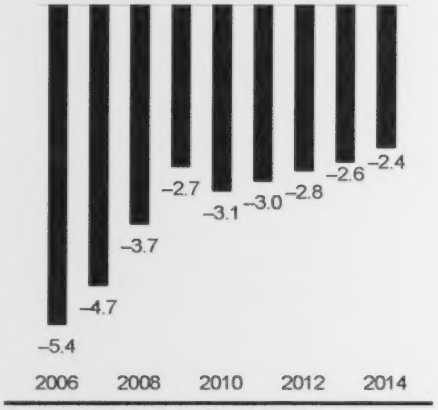
Changes in exports
(percentage change, in real terms)



Sources: IHS Global Insight and Ministère des Finances et de l'Économie du Québec.

CHART B.43

U.S. trade deficit
(as a percentage of GDP, in real terms)



Sources: IHS Global Insight and Ministère des Finances et de l'Économie du Québec.

3. THE INTERNATIONAL ECONOMIC CONTEXT

After rising 3.2% in 2012, growth in the global economy should slow to 2.9% in 2013, and then accelerate to 3.4% in 2014.

— It marks a 0.3 percentage point downward revision in 2013 and 2014 in relation to last spring's forecast.

— Anticipated growth in 2013 is the lowest rate of expansion of the world economy since the 2009 recession.

Slower growth in the global economy in 2013 stems from a more prolonged than anticipated downturn in emerging economies and modest recovery in most of the advanced economies.

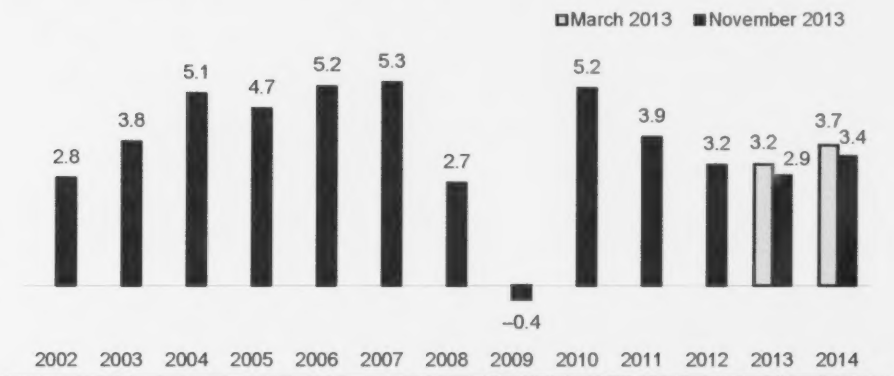
— Restrictive fiscal policy has curtailed economic growth in advanced economies. Emerging economies, where growth is oriented more toward exports, have been affected by the slowdown in world trade and the presence of structural challenges.

Certain advanced economies have nonetheless experienced an improvement in 2013, which bodes well for more robust global growth in 2014.

— This is the case for the United States, where private domestic demand has continued to rise despite the adoption of stringent austerity measures, for the euro area, which emerged from the recession in the second quarter of 2013, and the United Kingdom, where economic activity picked up recently.

CHART B.44

Global economic growth
(real GDP in purchasing-power parity, percentage change)



Sources: IHS Global Insight, International Monetary Fund and Ministère des Finances et de l'Économie du Québec.

❑ Slower growth in world trade

Annual growth in international trade, which corresponds to the average of the growth rates of imports and exports, fell from 12.9% in 2010 to 6.2% in 2011 and to 2.4% in 2012. The slowdown will continue in 2013, when international trade should increase by 2.0% under the combined impact of lacklustre demand from the advanced economies and persistent sluggishness in the emerging economies.

— The contraction of demand in the euro area has contributed markedly to lagging world trade.

— Slower growth in the Chinese economy has been especially apparent in trade with emerging economies in Asia.

Global trade should, however, pick up in 2014 and increase by 4.4%, spurred, above all, by a recovery in demand from advanced economies.

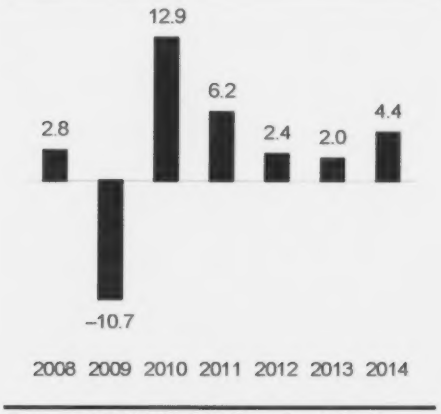
— The acceleration in U.S. domestic demand should foster the recovery in international trade.

— Moreover, once it has adjusted its trade balance, the euro area should increase its imports.

— Lastly, the gradual bolstering of growth in the emerging economies should also support the acceleration of trade flows, especially between the Asian economies.

CHART B.45

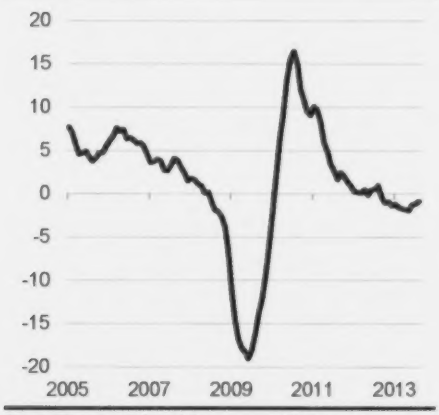
World trade in goods and services
(percentage change,
in real terms)



Sources: IHS Global Insight, International Monetary Fund and Ministère des Finances et de l'Économie du Québec.

CHART B.46

Imports of the advanced economies
(annual percentage change,
in real terms)



Note: Three-month mobile average of the year-on-year change, monthly data.
Sources: CPB Netherlands Bureau for Economic Policy Analysis and Ministère des Finances et de l'Économie du Québec.

❑ Divergences between the advanced and emerging economies

In 2013, significant disparities continued to mark growth in the global economy.

Growth was sluggish in advanced economies in 2013. Fiscal policies curtailed economic activity, in particular in the United States, where significant austerity measures were implemented at the beginning of the year.

Growth in emerging economies was appreciably higher than that in advanced economies. However, it was limited by structural challenges, which became apparent starting in May 2013 with the anticipated reduction in the pace of asset purchases by the Federal Reserve.

— The structural challenges include, notably, macroeconomic imbalances, including the increase in public or private debt, in current account deficits and excess production capacity.

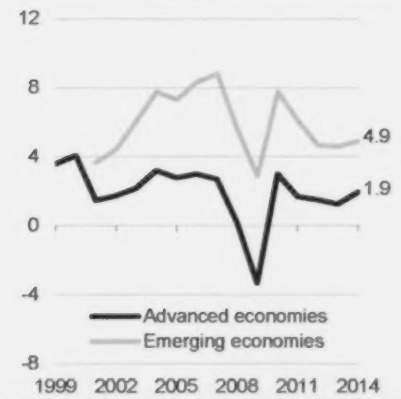
— In light of these challenges, anticipated increases in bond yields in the United States led to significant capital outflows from certain emerging economies in the summer of 2013.

In 2014, the maintenance of an accommodative monetary policy and the mitigation of budgetary consolidation measures should lead to brisker growth in the advanced economies.

— This should then lead to an increase in global demand, which will benefit emerging economies.

CHART B.47

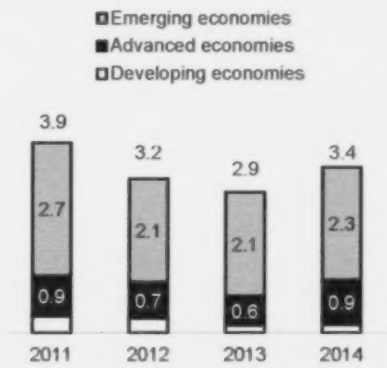
Growth in advanced and emerging economies
(real GDP in purchasing-power parity, percentage change)



Sources: IHS Global Insight and Ministère des Finances et de l'Économie du Québec.

CHART B.48

Contribution to global economic growth
(in percentage points)



Sources: International Monetary Fund, IHS Global Insight and Ministère des Finances et de l'Économie du Québec.

3.1 Stronger growth in advanced economies

After a 1.5% increase in 2012, the real GDP of advanced economies should grow by 1.2% in 2013 and by 1.9% in 2014. A number of advanced economies have undertaken a budgetary consolidation process that continued to put a damper on domestic demand in 2013.

The adverse impact of such adjustments should, however, gradually diminish. Furthermore, advanced economies will continue to benefit in 2014 from an accommodative monetary policy. Growth in several advanced economies should strengthen in 2014, although their economic perspectives are uneven.

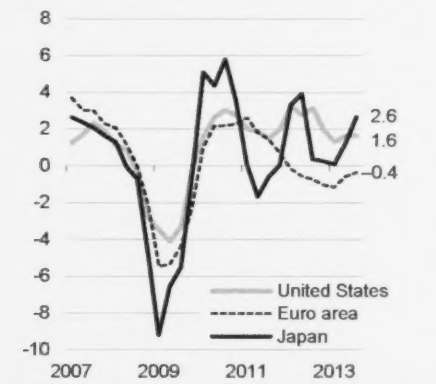
— In the United States, uncertainty surrounding fiscal policy has curtailed investment and job creation in 2013. More robust growth in the private sector should nonetheless lead to accelerated growth in 2014.

— In the euro area, growth resumed in the second quarter of 2013. The prolonged recession has, however, caused record unemployment and weakened the banking sector. These factors will continue to weigh on economic activity in 2014, especially in those countries affected by the sovereign debt crisis.

— In Japan, stimulation measures supported growth in 2013. In 2014, the impact of such measures will be moderated by an increase in the sales tax, a first step toward fiscal consolidation.

CHART B.49

Economic growth
(real quarterly GDP,
annual percentage change)

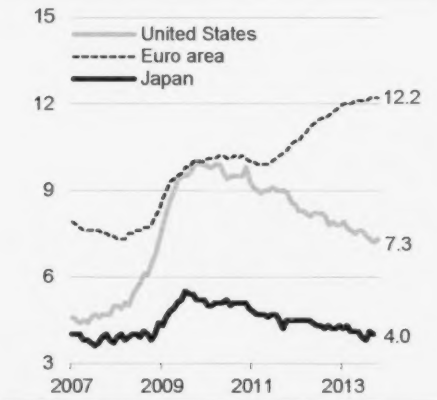


Sources: Eurostat and Ministère des Finances et de l'Économie du Québec.

CHART B.50

Unemployment rate

(as a percentage)



Source: Bloomberg.

Greater flexibility in relation to budget deficit targets

The economic downturn stemming in recent years from the adoption of stringent austerity measures in several advanced economies has spurred certain international institutions to recommend more flexible approaches to budget deficit targets.

The European Commission is recommending that the budgetary targets of several countries be delayed

In response to the euro zone sovereign debt crisis, the European Commission (EC) recommended in recent years the adoption of stringent austerity measures, although the approach has been qualified since the spring of 2013.

- In April 2013, EC President José Manuel Barroso asserted that austerity policies are reaching their limits in the absence of political and social support.
- In May 2013, the EC recommended the postponement of the attainment of the budgetary target of 3% of GDP, notably in France, the Netherlands, Spain, and Portugal.

The EC recommended the postponement after observing the negative economic impact of the implementation of the austerity policies adopted to attain budgetary targets.

- Despite fiscal consolidation efforts, the budgetary targets were not achieved because of weaker-than-anticipated economic growth when the targets were set.

The International Monetary Fund notes that tax multipliers were underestimated

The relaxation of the EC's demands follows the publication by the International Monetary Fund (IMF) of results indicating that austerity measures apparently affected economic growth more adversely than anticipated.

- Accordingly, "tax multipliers", which estimate the short-term impact of budgetary consolidation measures, were apparently largely underestimated.
- The IMF made public this observation with the presentation of an econometric estimate based on data from 28 countries, in the October 2012 *World Economic Outlook*.

The IMF recommends that economic growth not be stifled by excessive austerity measures

This finding has led the IMF to repeat its warning to advanced economies the risk of stifling the recovery by implementing overly stringent fiscal austerity measures.

- The IMF believes that fiscal consolidation remains a priority in many advanced economies and that the governments must pursue their budgetary consolidation efforts. However, they must take into account economic conditions in the attainment of their budgetary targets.

3.2 A longer-than-anticipated slowdown in emerging economies

After a 4.7% increase in 2012, the real GDP of emerging economies should grow by 4.6% in 2013 and by 4.9% in 2014, a growth rate below that observed in the period 2005-2011, when average annual growth in this group of countries exceeded 6.0%.

— Growth in several emerging economies, including China, India and Russia, continued to slow in the first half of 2013.

— Signs of a revival were nonetheless observed in the third quarter of the year. The Purchasing Managers Index (PMI), a coincident index of economic activity, recently improved.

In 2014, broader demand from advanced economies will foster growth in the emerging economies. The acceleration of growth in emerging economies will nonetheless be limited by the presence of structural challenges, especially in China, the second biggest economy after the United States.

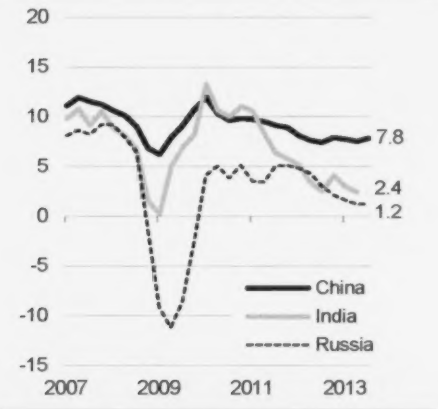
— Chinese officials want to better balance sources of growth and reduce the risks stemming from the rise in the indebtedness of local governments.

— The measures, which are necessary to ensure sustainable long-term growth, should nonetheless limit short-term growth. Economic growth in China will thus continue at a slower pace than in previous years.

CHART B.51

Growth in the emerging economies

(real quarterly GDP, annual percentage change)

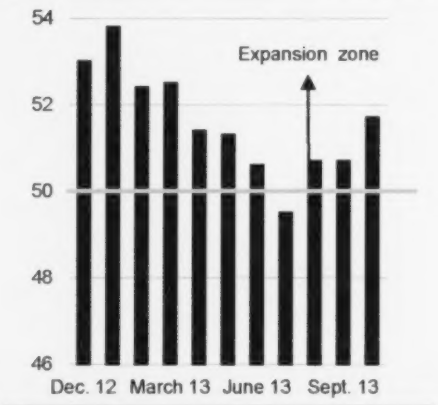


Sources: Bloomberg and Datastream.

CHART B.52

Composite purchasing managers index of the emerging economies

(diffusion index, manufacturing and services sector)



Source: Markit.

Certain emerging economies are vulnerable to capital flows

In the spring and the summer of 2013, emerging economies faced significant capital movements resulting from the expectation of an imminent reduction in the pace of asset purchases by the Federal Reserve and higher bond yields in the U.S.

- Outflows were especially striking in economies with a current account deficit (Brazil, India and Indonesia) that rely on foreign capital to finance domestic demand.

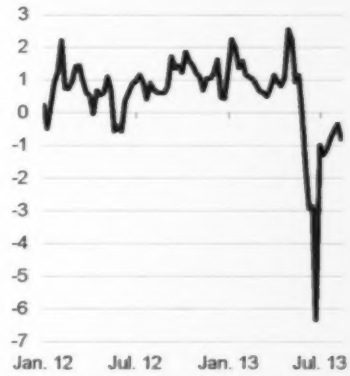
The movements partly reflect an upward reassessment of the risks linked to investments in the emerging economies because of imbalances in several of them.

- Such imbalances lead, depending on the case, to a weakened banking system, rising budget deficits, or a deterioration in current account balances.

To offset capital outflows, the central banks in certain emerging countries tightened their monetary policy in the spring of 2013. At the same time certain emerging economies have adopted economic stimulation measures, in particular through the facilitation of bank lending, in order to avoid significantly hampering economic growth.

- Accordingly, several emerging economies must contend with the pursuit of contradictory objectives such as stabilizing their currency, reducing their current account deficit and supporting short-term economic growth.

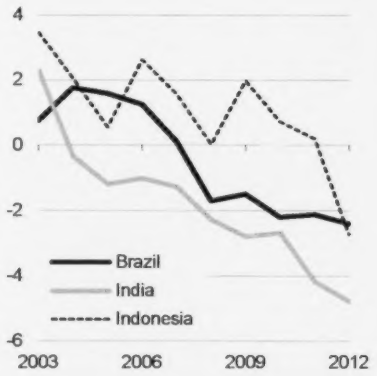
Net private capital flows to the emerging economies
(in billions of U.S. dollars)



Source: Organisation for Economic Co-operation and Development.

Current account balance[1]

(as a percentage of nominal GDP)



(1) The current account balance is the sum of the trade balance and the balance of "revenue and current transfer" accounts.
Source: International Monetary Fund.

3.3 Outlook by country

In **Canada**, economic growth in 2013 has been limited by moderate growth in consumption, a sluggish residential sector, and an international economic context that is less favourable to exports. The outlook for the Canadian economy is brighter for 2014 as global growth strengthens, especially in the United States. Growth in real GDP should reach 1.6% in 2013 and 2.1% in 2014.

In the **United States**, economic growth stood at 2.8% in 2012 and should slow to 1.6% in 2013 because of the impact of the budget measures implemented at the beginning of the year and the partial shutdown of U.S. federal government operations in the fourth quarter of 2013. In 2014, economic activity should accelerate to 2.4%, spurred chiefly by brisker private domestic demand.

TABLE B.6

Economic growth outlook in the world – November 2013 forecasts
(real GDP, percentage change)

	Weight[1]	2012	2013	2014
World[1]	**100.0**	**3.2**	**2.9**	**3.4**
– *March 2013*		*3.0*	*3.2*	*3.7*
Advanced economies[1]	**50.5**	**1.5**	**1.2**	**1.9**
– *March 2013*		*1.4*	*1.2*	*1.9*
Canada	1.8	1.7	1.6	2.1
– *March 2013*		*1.8*	*1.7*	*2.2*
United States	19.1	2.8	1.6	2.4
– *March 2013*		*2.2*	*1.8*	*2.5*
Euro area	14.1	–0.7	–0.4	0.7
– *March 2013*		*–0.6*	*–0.4*	*0.5*
United Kingdom	2.9	0.1	1.3	1.9
– *March 2013*		*0.2*	*0.9*	*1.3*
Japan	5.6	1.9	2.0	1.7
– *March 2013*		*2.0*	*1.1*	*1.2*
Emerging economies[1]	**44.7**	**4.7**	**4.6**	**4.9**
– *March 2013*		*4.8*	*5.3*	*5.5*
China	14.3	7.7	7.6	7.5
– *March 2013*		*7.8*	*8.0*	*7.8*
India	5.6	3.2	4.0	5.2
– *March 2013*		*5.1*	*5.8*	*6.5*

(1) In purchasing-power parity (2011).
Sources: IHS Global Insight, International Monetary Fund, Datastream, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

In the **euro area**, the respite in financial tensions linked to the sovereign debt crisis bolstered consumer and business confidence in several member countries. However, the crisis has weakened the economy on a long-term basis, especially in the southern nations of the monetary union, where the vulnerability of the banking systems, budgetary challenges and high unemployment rates persist. Thus, after a 0.4% drop in 2013, real GDP in the euro area should rise at the modest rate of 0.7% in 2014.

In the **United Kingdom**, economic activity accelerated in 2013, sustained by robust private domestic demand. The reduction in the unemployment rate and the revival of the real estate market should continue to sustain consumer spending in the coming year, while favourable economic and financial conditions should foster business investment. Accordingly, the economy of the United Kingdom should grow by 1.3% in 2013 and by 1.9% in 2014.

In **Japan**, the measures adopted in 2013 to halt a lengthy period of deflation and revitalize economic growth mark a significant shift in economic policy in relation to the past. In particular, the Bank of Japan announced in April 2013 a substantial increase in its level of monetary easing and the government adopted an economic stimulus plan, initiatives that should support growth in 2013. A slight downturn is nonetheless anticipated for 2014, following an increase in the sales tax, slated for April 2014, with a view to rebalancing public finances. Japan's real GDP should increase by 2.0% in 2013 and by 1.7% in 2014.

In **China**, the new government in place since March 2013 is determined to better balance sources of economic growth, which are now concentrated on exports and investments. Such rebalancing, which seeks to give greater importance to consumption, might lead to the stabilization of the Chinese economy at a growth rate that falls below the level noted in past years. After an average yearly growth rate of 9.1% between 2010 and 2012, China's real GDP should rise by 7.6% in 2013 and by 7.5% in 2014.

In **India**, the restrictive monetary policy pursued by the central bank in order to stabilize inflation and the exchange rate has put a damper on domestic demand. Several factors should further support growth in 2014, in particular the strengthening of the world economy and the impact of the reforms that the government has adopted to foster investment. Economic growth should reach 4.0% in 2013 and 5.2% in 2014, an acceleration in relation to growth of 3.2% recorded in 2012, which marked the Indian economy's weakest performance in the last 20 years.

Distinctions between advanced, emerging and developing economies

The global economic outlook of the Ministère des Finances et de l'Économie du Québec (MFEQ) covers different groups of economies: advanced, emerging and developing.

- The group of advanced economies includes, in particular, the United States, the euro area economies, Japan, the United Kingdom, Canada and some other Asian economies, such as South Korea.
- The group of emerging economies includes, notably, China, India, Russia, Brazil, Mexico, Indonesia, Turkey, Poland, and Argentina.
- The developing economies group includes countries such as Iran, Algeria, Belarus, and Iraq.

Overall, the advanced economies category accounts for 50.5% of the world economy, the emerging economies category for 44.7%, and the developing economies category for 4.8%.

The MFEQ distinguishes between emerging, advanced and developing economies in the same manner as the International Monetary Fund (IMF), which is based on the following main criteria:

- per capital income level;
- export diversification;
- degree of integration into the global financial system.

Weight of the main advanced, emerging, and developing economies in the global economy
(as a percentage, in purchasing-power-parity of 2011)

Economies	Weight[1]
Advanced	**50.5**
United States	19.1
Japan	5.6
Germany	3.9
United Kingdom	2.9
France	2.8
Others	16.2
Emerging	**44.7**
China	14.3
India	5.6
Russia	3.0
Brazil	2.9
Mexico	2.1
Others	16.7
Developing	**4.8**
TOTAL	**100.0**

(1) Since figures are rounded, their sum may not add up to the total.
Sources : International Monetary Fund and Ministère des Finances et de l'Économie du Québec.

4. RISKS RELATED TO ECONOMIC FORECASTS

This forecasting scenario hinges on several hypotheses, several of which are subject to risk. A number of the risks, both external and internal, might affect the anticipated changes in the Québec economy, which is an open economy.

❑ Low inflation in advanced economies

Inflation is low in a number of advanced economies.

— Despite the accommodative monetary policies maintained by most central banks since the 2008-2009 recession, annual inflation remains well below the 2% target set by central banks in Canada, the euro area and the United States.

— This situation stems, notably, from weak domestic demand in the advanced economies, overcapacity in the world and growing competition on international markets.

The central banks have limited leeway to stimulate price improvements. Accordingly, their ability to intervene would be reduced if downward pressure on inflation increases.

— Consequently, the low inflation observed in several advanced economies could continue, which could exacerbate the fiscal challenges faced certain countries by curtailing growth in tax revenues.

❑ Uncertainty stemming from negotiations on the budget bills that the U.S. Congress must adopt in 2014

In the wake of intense negotiations, in October 2013, the U.S. Congress approved a budget bill that raises the debt ceiling until February 7, 2014 and renews spending authority until January 15, 2014.

— According to the most likely scenario, the conclusion of an agreement as the new deadlines approach should mark the outcome of intense negotiations.

— However, the maintenance of highly polarized stances in Congress might once again lead to the partial shutdown of the U.S. government operations in 2014 and growing anxiety over the management of U.S. public debt.

  — This in turn might lead to lower economic growth than forecast in the United States and possible volatility on financial markets.

On the other hand, if the budget bills were adopted within the anticipated time limits and, above all, if they offer a long-term solution to the budgetary issues, the dissipation of uncertainty surrounding budgetary policy might generate stronger-than-anticipated acceleration in economic activity in the US.

❑ Financial turbulence as the Federal Reserve starts to slow the pace of its asset purchases

The Federal Reserve should start to slow the pace of its asset purchases in 2014, having injected massive liquidities since the end of 2007.

Although the Fed was to gradually withdraw injections of liquidities in sync with changes in the U.S. economy, this operation might lead to turbulence on financial markets.

— For example, a precipitous increase in bond yields might adversely affect certain economic sectors, in particular the real estate sector, which is now a cornerstone of the economic recovery in the United-States.

— Furthermore, Canadian bond yields might follow U.S. trends and rise more rapidly than anticipated, while the Canadian dollar might depreciate significantly in relation to the U.S. dollar.

❑ The emerging economies are vulnerable to movements of foreign capital and access to credit

The public or private indebtedness of a number of major emerging economies has increased in recent years, especially because of the expansionary monetary policy implemented in advanced economies, which have transferred substantial capital to emerging economies in search of yields.

The rise in indebtedness has spawned imbalances.

— Some capital has financed non-productive investments or has been channeled to sectors where there is production over-capacity.

The imbalances are making certain emerging economies vulnerable to restricted credit that might result from the reduction in capital flows, stemming from the slower pace of asset purchases by the Federal Reserve or the tightening of monetary policy in the economies.

— The sudden withdrawal of foreign capital could put a damper on domestic demand, weaken currencies and boost inflation, possibly encouraging monetary officials in the economies to further tighten their monetary policy.

— Higher interest rates resulting from tighter monetary policy could further reduce the profitability of certain investments and thereby result in defaults on payments, which would weaken the banking system in such economies.

❑ Uncertain changes in the euro area in the wake of the sovereign debt crisis

Several countries in the euro area jointly committed themselves to a process of budgetary adjustment in response to the euro area sovereign debt crisis. The restrictive impact of the austerity measures adopted simultaneously nudged the euro area into a lengthy recession, which ended in the second quarter of 2013.

— The mitigation expected of the austerity measures might have a ripple effect, stemming from a simultaneous revival of confidence in the member countries, which would lead to stronger-than-anticipated economic growth in the euro area.

— On the other hand, the economic situation in the euro area remains fragile. Economic growth could be weaker than forecast if uncertainty surrounding the survival of the monetary union again comes to the fore in the wake of disagreements between European authorities, thereby increasing financial tensions and undermining the confidence of economic agents.

❑ Fluctuations in the prices of commodities that exceed forecasts

The prices of natural resources such as metals and crude oil are tied to the global economic environment. Weaker-than-anticipated global economic growth, by limiting demand for commodities, could push natural resource prices to lower-than-anticipated levels.

The natural resource sector has, for several years, contributed significantly to the Québec economy and has a spillover effect on related industries such as processing, construction and transportation.

— A downward adjustment of commodity prices might limit the expansion of the commodities sector in Québec and in Canada, thereby reducing the sector's contribution to economic growth.

❑ The Québec residential sector could contract further

Since 2008, the federal government has implemented four series of measures that affect mortgage loan insurance in order to put a damper on the Canadian residential sector and avoid a real estate bubble.

Federal Finance Minister Jim Flaherty recently suggested that a new series of measures might be necessary to further curb the Canadian residential real estate sector.

In Québec, the residential sector has already undergone an adjustment over the past year and is now close to being in a balanced situation.

The cumulative effect of the measures already adopted, combined with possible new restrictions, might tip the Québec residential sector into an even more substantial adjustment, which would adversely affect the economy.

Section C

THE GOVERNMENT'S FINANCIAL SITUATION

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1.2 The government's financial framework C.6

2. Update to the financial framework **C.7**

2.1 Summary of adjustments to the financial framework C.7

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2.3 Adjustments to budgetary expenditure C.20

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APPENDIX 2: Mining duties revenue forecasts **C.33**

INTRODUCTION

This section of the November 2013 *Update on Québec's Economic and Financial Situation* describes the change to the financial framework since March 2013. For this section, the budget data for 2012-2013 are real data and those for 2013-2014 and subsequent years are forecasts.

The information in this section concerns the change in the financial situation, i.e.:

— the return to a balanced budget in 2015-2016;

— the update to the financial framework;

— the detailed results.

1. RETURN TO A BALANCED BUDGET IN 2015-2016

1.1 Deficits forecast in 2013-2014 and 2014-2015

For 2012-2013, the public accounts show a deficit of $1.6 billion, a difference of $100 million compared to the target figure.

The growth in own-source revenue has been more moderate since the beginning of 2013 and requires that the target date for returning to a balanced budget be moved back to 2015-2016.

In this regard, for 2013-2014, the government is forecasting:

— that the budget deficit will correspond to the downward adjustments to own source revenue;

— that the program spending objective will be maintained at the amount forecast in the March 2013 Update.

The government also intends to continue making payments to the Generations Fund and to meet debt reduction objectives.

Accordingly, the deficits forecast in the financial framework amount to:

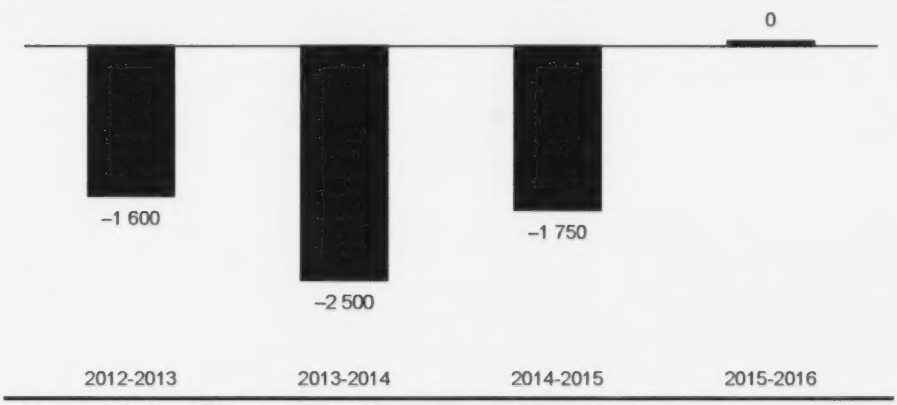
— $2.5 billion in 2013-2014;

— $1.75 billion in 2014-2015.

The budget will be balanced in 2015-2016.

CHART C.1

Budgetary balances from 2012-2013 to 2015-2016[1]
(millions of dollars)



(1) Budgetary balance within the meaning of the Balanced Budget Act.

1.2 The government's financial framework

The following table shows the government's financial framework from 2013-2014 to 2015-2016.

For 2013-2014, budgetary revenue will amount to $69.8 billion while budgetary expenditure will stand at $72.4 billion.

— Taking the results of consolidated entities and the use of $200 million from the contingency reserve into account, the budget deficit is forecast at $2.5 billion.

For 2014-2015, the forecast deficit is $1 750 million. The financial framework forecasts a shortfall of $400 million that will be offset when the 2014-2015 budget is tabled.

Moreover, the financial framework takes into account *the Economic Policy – Putting Jobs First* and the solidarity policy announced on October 7 and October 30, 2013 respectively.

TABLE C.1

Summary of adjusted budgetary transactions – November 2013
(millions of dollars)

	2013-2014	2014-2015	2015-2016
BUDGETARY TRANSACTIONS			
Budgetary revenue	69 806	71 468	74 243
% change	*3.3*	*2.4*	*3.9*
Budgetary expenditure	–72 408	–73 785	–75 200
% change	*3.4*	*1.9*	*1.9*
Consolidated entities	1 171	1 463	1 818
Contingency reserves	—	—	–200
Shortfall to be offset	—	400	1 000
SURPLUS (DEFICIT)	**–1 431**	**–454**	**1 661**
BALANCED BUDGET ACT			
Payments of revenue dedicated to the Generations Fund	–1 069	–1 296	–1 661
BUDGETARY BALANCE[1]	**–2 500**	**–1 750**	**—**
As a % of GDP	***–0.7***	***–0.5***	**—**

(1) Budgetary balance within the meaning of the *Balanced Budget Act*.

2. UPDATE TO THE FINANCIAL FRAMEWORK

This chapter describes the update to budgetary revenue and expenditure for 2013-2014 to 2015-2016 as well as the main adjustments made since the March 2013 *Update on Québec's Economic and Financial Situation* was released.

2.1 Summary of adjustments to the financial framework

Since the last economic and financial update in March 2013, the financial framework has been changed in particular because of:

— adjustments related to the economy, resulting chiefly in a downward adjustment to own-source revenue;

— the results of the new actuarial valuations of the retirement plans of public and parapublic sector employees;

— inclusion of the costs of new policies announced by the government, an initial estimate of support for the community following the tragedy in Lac-Mégantic as well as adjustments to consolidated entities;

— measures to restore fiscal balance.

In 2013-2014, the anticipated deficit of $2.5 billion corresponds to the downward adjustment in the government's own-source revenue. The other adjustments will be offset by stringent spending control and the elimination of the contingency reserve.

The deficit of $1.75 billion forecast for 2014-2015 and the expected balanced budget in 2015-2016 are based on continuing stringent spending control as well as the elimination and reduction of the contingency reserve for these two years respectively.

TABLE C.2

Adjustments since the March 2013 Update

(millions of dollars)

	2013-2014	2014-2015	2015-2016
BUDGETARY BALANCE – MARCH 2013	—	—	—
Adjustments relating to the economy			
Own-source revenue	–2 485	–2 777	–2 543
Federal transfers	194	248	368
Debt service	27	–35	–33
Subtotal	**–2 264**	**–2 564**	**–2 208**
New actuarial valuations of the retirement plans			
Program spending	–404	–394	–399
Debt service	–94	–109	–125
Subtotal	**–498**	**–503**	**–524**
Other adjustments			
Economic policy[1]	–33	–412	–404
Solidarity policy	—	–80	–89
Assistance to the community of Lac-Mégantic[2]	–60	—	—
Consolidated entities[3]	–330	484	533
Subtotal	**–423**	**–8**	**40**
Measures to restore fiscal balance			
Spending control	485	1 055	1 922
Contingency reserves	200	300	200
Additional shortfall to be offset – November 2013	—	–30	570
BUDGETARY BALANCE – NOVEMBER 2013	**–2 500**	**–1 750**	**—**

(1) The amounts shown correspond to the budgetary cost. The impacts on the economy are given in section E.
(2) Amount allocated in the summer of 2013. Costs for decontamination will be in addition to that amount.
(3) Excluding the Generations Fund.

❑ Main reasons for the adjustments

■ Adjustments relating to the economy

The economy's recent performance has led to:

— downward adjustments to own-source revenue of $2 485 million in 2013-2014 and $2 777 million in 2014-2015 because of lower revenue in late 2012-2013 and since the beginning of 2013-2014;

— upward adjustments to debt service of some $30 million for 2014-2015 and 2015-2016.

These deteriorations in the financial framework are mitigated by an improvement in federal transfers arising from population data of Statistics Canada's 2011 Census.

■ Adjustments tied to new actuarial valuations of the retirement plans of public and parapublic sector employees

The results of the new actuarial valuations of the retirement plans of public and parapublic sector employees result in an increase in program spending of $400 million per year as of 2013-2014.

In addition, the interest expenditure regarding the retirement plans liability is adjusted upward by almost $100 million per year as of 2013-2014.

■ Other adjustments to the financial framework

Other adjustments to the financial framework include:

— the cost of measures announced in the *Economic Policy – Putting Jobs First*;

— the cost of measures announced for the solidarity policy;

— the initial $60 million in financial assistance announced in the summer of 2013 for the community of Lac-Mégantic. To such costs will be added, in particular, the cost of decontamination;

— the expected results of consolidated entities, which include the results of non-budget-funded bodies, special funds and the health and education networks. In particular, these adjustments anticipate:

  — that no additional taxes will be allocated to the Fund to Finance Health and Social Services Institutions, as of 2014-2015, to finance spending of $430 million, an amount forecast since the 2010-2011 budget. The additional financing allocated to health will be determined when the expenditure budget is prepared.

■ Measures adopted to restore fiscal balance

To enable a gradual return to fiscal balance:

— stringent spending control will continue;

— contingency reserves will be reduced;

— an additional shortfall of some $600 million is forecast to be offset in 2015-2016.

2.2 Adjustments to budgetary revenue

The government's budgetary revenue is expected to total $69.8 billion in 2013-2014, i.e. $53.2 billion in own-source revenue and $16.6 billion in federal transfers.

Budgetary revenue should rise by 3.3% in 2013-2014, 2.4% in 2014-2015 and 3.9% in 2015-2016.

TABLE C.3

General Fund
Change in budgetary revenue
(millions of dollars)

	March 2013 Update		November 2013		
	2013-2014	Adjustments	2013-2014	2014-2015	2015-2016
Own-source revenue					
Own-source revenue excluding government enterprises	50 576	–2 424	48 152	50 136	52 354
% change	*5.5*		*3.0*	*4.1*	*4.4*
Government enterprises	5 108	–73	5 035	5 017	5 073
% change[1]	*2.5*		*–1.4*	*–0.4*	*1.1*
Subtotal	**55 684**	**–2 497**	**53 187**	**55 153**	**57 427**
% change	***5.2***		***2.6***	***3.7***	***4.1***
Federal transfers	16 425	194	16 619	16 315	16 816
% change	*4.6*		*5.8*	*–1.8*	*3.1*
TOTAL	**72 109**	**–2 303**	**69 806**	**71 468**	**74 243**
% change	***5.0***		***3.3***	***2.4***	***3.9***

(1) Excluding the amounts paid into the Generations Fund corresponding to revenue from the indexation of the price of heritage pool electricity, i.e. $71 million in 2014-2015 and $165 million in 2015-2016.

❑ Own-source revenue excluding government enterprises

Own-source revenue excluding government enterprises consists chiefly of tax revenue, which is made up of personal income tax, contributions to the Health Services Fund, corporate taxes and consumption taxes. How it changes is closely tied to economic activity and changes to the tax systems.

Own-source revenue excluding government enterprises includes, apart from tax revenue, various revenues of an administrative nature, such as fees and permits, interest and fines.

■ Downward adjustments in 2013-2014

The forecasts for fiscal year 2013-2014 show that own-source revenue excluding government enterprises is adjusted downward by $2 424 million compared with the forecast in the March 2013 Update. Accordingly, it amounts to $48.2 billion, up 3.0% compared with revenue for fiscal year 2012-2013.

■ Adjustments to own-source revenue by source

Revenue from personal income tax is adjusted downward by $885 million for fiscal year 2013-2014 compared with the amount forecast in the March 2013 Update. This adjustment is mainly attributable to lower wages and salaries and employment insurance in 2013. In addition, withholdings at source are less than forecast since the beginning of the fiscal year.

Contributions to the Health Services Fund are adjusted downward by $36 million, reflecting less robust growth in wages and salaries in 2013 than forecast.

Moreover, revenue from corporate taxes is adjusted downward by $741 million for fiscal year 2013-2014, attributable, in particular, to lower than expected net operating surplus of corporations in 2012, 2013 and 2014.

Revenue from consumption taxes is adjusted downward by $576 million for 2013-2014. This adjustment is attributable essentially to the downward adjustment to the Québec sales tax resulting, in particular, from lower recurring tax revenues for 2012-2013, combined with a downward adjustment to nominal consumption stemming from muted price increases.

Revenue relating to natural resources is adjusted downward by $149 million in 2013-2014 mainly because of the decline in the value of mining production subject to mining duties, which is affected by the steeper decline than expected in the prices of metals produced in Québec.

Other revenue is adjusted downward by $37 million as a result, in particular, of lower-than-expected revenue from interest.

TABLE C.4

General fund
Change in own-source revenue excluding government enterprises
(millions of dollars)

	March 2013 Update		November 2013		
	2013-2014	Adjustments	2013-2014	2014-2015	2015-2016
Personal income tax	20 264	–885	19 379	20 420	21 631
% change	*5.3*		*3.3*	*5.4*	*5.9*
Health Services Fund	6 717	–36	6 681	6 920	7 165
% change	*2.7*		*1.3*	*3.6*	*3.5*
Corporate taxes	4 514	–741	3 773	4 033	4 302
% change	*8.9*		*–3.7*	*6.9*	*6.7*
Consumption taxes	17 048	–576	16 472	16 807	17 370
% change	*6.1*		*5.7*	*2.0*	*3.3*
Natural resources	238	–149	89	158	52[1]
% change	*20.2*		*–55.3*	*77.5*	*–67.1*
Other revenue	1 795	–37	1 758	1 798	1 834
% change	*2.3*		*3.4*	*2.3*	*2.0*
TOTAL	**50 576**	**–2 424**	**48 152**	**50 136**	**52 354**
% change	***5.5***		***3.0***	***4.1***	***4.4***

(1) As of 2015-2016, all mining revenue will be paid into the Generations Fund. Accordingly, $132 million will thus be paid for 2015-2016.

■ Change by revenue source in 2014-2015 and 2015-2016

In 2014-2015 and 2015-2016, own-source revenue excluding government enterprises will rise by 4.1% and 4.4% respectively.

More specifically, personal income tax, the government's largest revenue source, should rise by 5.4% in 2014-2015 and 5.9% in 2015-2016, reaching $20.4 billion and $21.6 billion respectively. This increase is consistent with the growth in personal income given the progressive nature of the tax system and the following factors:

— the contribution of pension income to growth in revenue subject to tax, particularly that of private pension plans;

— the end of the EcoRenov tax credit for carrying out environmentally-friendly residential renovation work in 2014, helping to boost revenue in 2015-2016.

Contributions to the Health Services Fund will rise by 3.6% in 2014-2015 and 3.5% in 2015-2016 consistent with the expected growth in wages and salaries.

Corporate income tax revenue should rise by 6.9% in 2014-2015 and 6.7% in 2015-2016, reaching $4.0 billion and $4.3 billion respectively.

— This growth is determined essentially by the rise in corporate net operating surplus that affects the rise in their taxable income and tax payable. Remittances relating to instalment payments resume sustained growth after expected slowdown in 2013-2014.

— Similarly, in a recovery, it is expected that refunds claimed by businesses will grow at a more moderate rate.

Growth in consumption tax revenue will reach 2.0% and 3.3% in 2014-2015 and 2015-2016 respectively as a result of the combined effect of higher consumer spending, excluding food and rent, and more investment in residential construction.

— For 2014-2015, the weaker growth is also attributable to the beginning of the annual payment of $100 million to the Generations Fund from revenue from the tax on alcoholic beverages, reducing growth in revenue.

Revenue from natural resources will rise by $69 million in 2014-2015 and then decline by $106 million in 2015-2016, amounting to $158 million and $52 million respectively.

— For 2014-2015, the increase stems from the rise in forestry royalties resulting from expected growth in the value of timber, and the anticipated increase in mining royalties.

— In 2015-2016, the decline in revenue essentially results from the allocation of all mining revenue to the Generations Fund, as stipulated by the *Act respecting mainly the implementation of certain provisions of the Budget Speech* of 20 November 2012 adopted last June.

■ Growth in revenue consistent with that of the economy

Overall, for the next two years, the expected growth in own-source revenue excluding government enterprises is consistent with nominal economic growth, apart from, in particular, the financial impact of the fiscal measures of the *Economic Policy – Putting Jobs First* tabled in the fall 2013.

❑ Revenue from government enterprises

■ 2013-2014

For 2013-2014, revenue from government enterprises are adjusted downward by $73 million mainly because of lower-than-expected results of Loto-Québec and the Société des alcools du Québec.

■ 2014-2015 and 2015-2016

For 2014-2015 and 2015-2016, revenue from government enterprises will amount to $5 017 million and $5 073 million respectively. Anticipated revenue will rise by 1.1% in 2014-2015 and 2.9% in 2015-2016, before the allocation to the Generations Fund of $71 million in 2014-2015 and $165 million in 2015-2016 from Hydro-Québec's revenue from indexing the price of heritage pool electricity.

TABLE C.5

General fund
Change in revenue from government enterprises
(millions of dollars)

	March 2013 Update		November 2013		
	2013-2014	Adjustments	2013-2014	2014-2015	2015-2016
Hydro-Québec	2 725	75	2 800	2 800	2 890
Loto-Québec	1 271	–114	1 157	1 181	1 211
Société des alcools du Québec	1 067	–30	1 037	1 067	1 098
Others	45	–4	41	40	39
Subtotal	**5 108**	**–73**	**5 035**	**5 088**	**5 238**
% change	***2.5***		***–1.4***	***1.1***	***2.9***
Hydro-Québec revenue allocated to the Generations Fund[1]	—	—	—	–71	–165
REVENUE FROM GOVERNMENT ENTERPRISES	**5 108**	**–73**	**5 035**	**5 017**	**5 073**

(1) Corresponds to the amounts relating to indexation of the price of heritage pool electricity.

❑ Federal transfer revenues

In 2013-2014, revenues from federal transfers, before the payment relating to federal compensation for harmonizing the QST with the GST, should approach $15.6 billion, i.e. $194 million more than forecast in the March 2013 Update.

— Including the second payment of $1 467 million of federal compensation for harmonizing the QST with the GST and the allocation of $430 million from this compensation to the Fund to Finance Health and Social Services Institutions, federal transfers will grow by 5.8%, reaching $16.6 billion in 2013 2014.

— Compared to the March 2013 Update, the $194-million increase in 2013-2014 is attributable in particular to an upward adjustment of $116 million to transfers for health arising from the inclusion of positive adjustments, as of 2010, to Québec's population stemming from the 2011 Census.

  — The rise in Québec's share of the population of Canada results in an increase in Québec's share of the health transfer envelope, which is allocated essentially on a per capita basis.

In 2014-2015, federal transfers should rise by 4.7% and amount to $16.3 billion. This increase is chiefly attributable to:

— an expected rise in equalization payments of 11.6% resulting mainly from the downward impact of Hydro-Québec's dividend in 2012-2013 attributable to the closing of the Gentilly-2 nuclear power plant and incorporation of the adjustments to Québec's population stemming from the 2011 Census;

  — an upward adjustment to Québec's population reduces its per capita fiscal capacity (fiscal capacity divided by a larger population) and increases its gap with the average fiscal capacity of the ten provinces. The shortfall to be offset compared to the average of the ten provinces is therefore greater, resulting in higher equalization payments for Québec.

— weaker growth in health transfers attributable to the end of the Wait Times Reduction Transfer ($58 million for Québec) and the end of inclusion of the value of tax points transferred to the provinces in 1977 in the allocation of the envelope of the Canada Health Transfer (CHT) representing a shortfall of $197 million for Québec;

— an 18.9% drop in revenue from other programs stemming chiefly from the end, in 2013-2014, of the Canada Québec Labour Market Agreement (LMA).

TABLE C.6

General fund
Change in federal transfer revenues
(millions of dollars)

	March 2013 Update		November 2013		
	2013-2014	Adjustments	2013-2014	2014-2015	2015-2016
Equalization	7 833	—	7 833	8 738	8 927
% change	*6.0*		*6.0*	*11.6*	*2.2*
Health transfers	5 140	116	5 256	5 230	5 560
% change	*7.3*		*9.7*	*–0.5*	*6.3*
Transfers for post-secondary education and other social programs	1 545	–17	1 528	1 564	1 587
% change	*4.0*		*2.8*	*2.4*	*1.5*
Other programs	870	95	965	783	742
% change	*–8.0*		*2.3*	*–18.9*	*–5.2*
Subtotal	**15 388**	**194**	**15 582**	**16 315**	**16 816**
% change	***2.7***		***4.1***	***4.7***	***3.1***
Harmonization of the QST with the GST – Compensation	1 467	—	1 467	—	—
Allocation to the FINESSS[1] of part of the compensation for harmonization of the QST with the GST	–430	—	–430	—	—
FEDERAL TRANSFERS	**16 425**	**194**	**16 619**	**16 315**	**16 816**
% change	***4.6***		***5.8***	***–1.8***	***3.1***

(1) Fund to Finance Health and Social Services Institutions.

It should be noted that total federal transfers, for each of the coming years, would have been higher by at least $267 million, as of 2014-2015, were it not for the federal government's decisions to:

— no longer take the value of tax points into account in the allocation of the CHT as of 2014-2015;

— not renew the LMA in its current form.

For 2015-2016, federal transfers are expected to reach $16.8 billion, an increase of 3.1% attributable among other things to higher growth in health transfers stemming essentially from the increase in the CHT envelope for the provinces as a whole.

$267 million less for Québec in 2014-2015

Withdrawal of tax points from the CHT: –$197 million

Currently, the CHT consists of a cash transfer and a tax transfer corresponding to the value of tax points transferred to the provinces in 1977. The total of these transfers is distributed on a per capita basis. As a result of this allocation of the CHT, a province whose tax points represent a larger per capita amount than the other provinces receives a lower cash transfer.

In December 2011, the federal government announced that tax points will no longer be taken into account in allocating the CHT envelope as of 2014-2015. Alberta, with an expected gain of $883 million in 2014-2015, is the only province that will benefit from this change.

For Québec, this change will represent a recurring revenue shortfall of $197 million beginning in 2014-2015.

The federal government also indicated, in December 2011, that the withdrawal of tax points would be followed by a protection payment so that no province would receive a lower health transfer compared to 2013-2014.

However, it is important to point out that the federal government, in its 2007 budget, undertook to make a protection payment according to an entirely different method, such that no province would receive a smaller payment than what it would have received had the value of tax points been included in the allocation of the CHT envelope. This change in method means that Québec's revenue shortfall of $197 million in 2014-2015 will not be offset by the federal government.

Canada Québec Labour Market Agreement (LMA): –$70 million

Québec designs and offers training programs that meet the needs of its population and reflect the priorities of Québec's labour market. For its part, the federal government contributes to supporting Québec's employment and training services and measures as well as to the funding of the related administration costs through the LMA.

Under the 2009 agreement, Québec receives almost $116 million a year.

- The LMA targets persons who are ineligible for employment insurance as well as workers with a significant deficit in basic training or without recognized qualifications.

However, in its 2013 budget, the federal government announced the creation of the Canada Job Grant (CJG), funded from the annual $500 million intended for the provinces under their respective labour market agreements, of which $300 million would be paid directly to the private sector and $200 million paid to the provinces and territories.

The federal government believes that the programs and measures implemented by the provinces and territories are not producing the results hoped for. The Québec government disagrees and reiterates that it is in the best position to meet the needs of its population because it is more keenly aware of the realities of Québec's labour market.

$267 million less for Québec in 2014-2015 (continued)

The Québec government is of the view that the implementation of the CJG jeopardizes existing programs that are effective in improving the employability and labour market participation of young people, handicapped persons, aboriginal people, new immigrants, social assistance recipients, long-term unemployed workers and older workers.

Impact for Québec

Implementation of the CJG would deprive Québec of roughly $70 million for its employment measures. Furthermore, these amounts diverted to the new CJG would require that Québec and employers each spend $70 million per year to access their share of federal funds. The announced changes therefore represent a total cost of $140 million for Québec if it wishes to maintain existing services.

Position of Québec

On March 28, 2013, the National Assembly unanimously reaffirmed that workforce training is within provincial jurisdiction and that Québec must retain control in this field with no preconditions. In addition, it demanded that the LMA be renewed as it currently stands.

Consequently, the Québec government is asking that the CJG not apply within its territory and that Québec withdraw with full financial compensation.

2.3 Adjustments to budgetary expenditure

Budgetary expenditure, which includes program spending and debt service, is adjusted upward by $67 million in 2013-2014.

Budgetary expenditure is forecast to rise by 1.9% in 2014-2015 and 2015-2016.

TABLE C.7

General fund
Change in budgetary expenditure
(millions of dollars)

	March 2013 Update		November 2013		
	2013-2014	Adjustments	2013-2014	2014-2015	2015-2016
Program spending	63 825	—	63 825	65 106	66 390
% change	*1.9*		*2.5*	*2.0*	*2.0*
Debt service	8 516	67	8 583	8 679	8 810
% change	*8.9*		*10.5*	*1.1*	*1.5*
TOTAL	**72 341**	**67**	**72 408**	**73 785**	**75 200**
% change	***2.7***		***3.4***	***1.9***	***1.9***

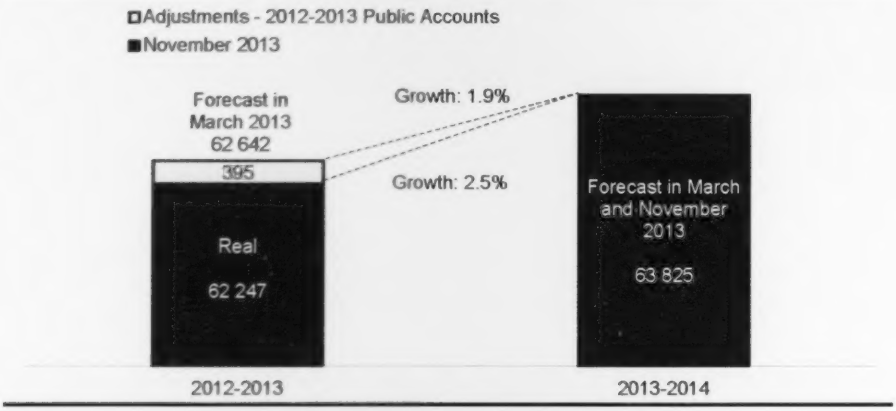
❑ Program spending

■ 2013 2014

The program spending objective for 2013-2014 remains $63 825 million, an increase of 2.5% compared to the actual results for 2012-2013.

CHART C.2

Adjusted program spending – 2012-2013 and 2013-2014
(millions of dollars)



■ 2014-2015 and 2015-2016

For 2014-2015 and 2015-2016, the government's ongoing spending control will trim program spending growth to 2.0% per year.

These new spending objectives also take into account:

— the new actuarial valuations of the public and parapublic sector retirement plans;

— the new government economic and solidarity policies;

— the initial amount of $60 million in financial assistance for the community of Lac-Mégantic was announced in the summer of 2013. Costs for decontamination will be in addition to that amount.

TABLE C.8

Change in program spending
(millions of dollars)

	2013-2014	2014-2015	2015-2016
PROGRAM SPENDING OBJECTIVE – MARCH 2013	**63 825**	**65 411**	**67 502**
% change	***1.9***	***2.5***	***3.2***
Expenditure adjustments			
New actuarial valuations of the public and parapublic sector retirement plans	404	394	399
Economic policy	21	276	322
Solidarity policy	—	80	89
Assistance to the community of Lac-Mégantic[1]	60	—	—
Spending control	–485	–1 055	–1 922
ADJUSTMENTS	**—**	**–305**	**–1 112**
PROGRAM SPENDING OBJECTIVE – NOVEMBER 2013	**63 825**	**65 106**	**66 390**
% change	***2.5***	***2.0***	***2.0***

(1) Amount allocated in the summer of 2013. Costs for decontamination will be in addition to that amount.

❑ Debt service

In 2013-2014, general fund debt service should amount to $8.6 billion, including $5.3 billion for direct debt service and $3.3 billion in interest on account of the public and parapublic sector employees' retirement plans liability.

Overall, debt service is adjusted upward by $67 million in 2013-2014. This adjustment is attributable chiefly to the inclusion of the new actuarial valuations of the retirement plans.

Debt service is expected to rise by 10.5% in 2013-2014. This increase is attributable to higher long-term interest rates, the rise in the debt, the impact of the new actuarial valuations of the retirement plans as well as the impact of the returns of the Caisse de dépôt et placement du Québec on the revenue of the Retirement Plans Sinking Fund (RPSF). The income of the RPSF is applied against the government's debt service.

Debt service is expected to rise by 1.1% in 2014-2015 and by 1.5% in 2015-2016, mainly because of higher interest rates and the increase in the debt.

TABLE C.9

General fund
Change in debt service
(millions of dollars)

	March 2013 Update		November 2013		
	2013-2014	Adjustments	2013-2014	2014-2015	2015-2016
Direct debt service	5 380	–82	5 298	5 611	5 870
Interests on retirement plans liability[1]	3 157	142	3 299	3 084	2 959
Interests on employee future benefits liability[2]	–21	7	–14	–16	–19
DEBT SERVICE	**8 516**	**67**	**8 583**	**8 679**	**8 810**
% change	***8.9***		***10.5***	***1.1***	***1.5***

(1) Corresponds to the interest on the obligations relating to the retirement plans of public and parapublic sector employees less the investment income of the Retirement Plans Sinking Fund.
(2) Corresponds to the interest on the obligation relating to the survivors pension plan less the investment income of the Survivor's Pension Plan Fund and the interest on the obligation relating to accumulated sick leave less the investment income of the Accumulated Sick Leave Fund.

2.4 The government's consolidated expenditure

The following table shows the amount and the change in the components of consolidated expenditure, i.e. all public expenditure included in the government reporting entity.

In addition to program spending, consolidated expenditure includes the expenditure of special funds, non-budget-funded bodies, organizations in the health and social services and the education networks, and debt service.

Growth in consolidated expenditure, excluding debt service, will average 2.5% from 2013-2014 to 2015 2016.

TABLE C.10

Change in consolidated expenditure
(millions of dollars)

	2012-2013	2013-2014	2014-2015	2015-2016
Program spending	62 247	63 825	65 106	66 390
% change	*1.2*	*2.5*	*2.0*	*2.0*
Special funds	6 959	8 567	8 344	8 657
% change	*6.0*	*23.1*	*–2.6*	*3.8*
Non-budget-funded bodies[1]	17 331	18 317	19 106	20 572
% change	*2.6*	*5.7*	*4.3*	*7.7*
Health and social services and education networks	36 768	37 625	38 022	38 569
% change	*4.1*	*2.3*	*1.1*	*1.4*
Specified purpose accounts	1 098	1 077	1 161	958
% change	*–25.7*	*–1.9*	*7.8*	*–17.5*
Spending funded by the tax system[2]	6 014	6 152	6 335	6 364
% change	*—*	*2.3*	*3.0*	*0.5*
Consolidation adjustments[3]	–49 744	–52 191	–52 932	–54 580
Consolidated expenditure excluding debt service	**80 673**	**83 372**	**85 142**	**86 930**
% change	*2.5*	*3.3*	*2.1*	*2.1*
Debt service				
General Fund	7 766	8 583	8 679	8 810
% change	*5.7*	*10.5*	*1.1*	*1.5*
Consolidated entities[4]	2 073	2 267	2 376	2 669
% change	*–1.4*	*9.4*	*4.8*	*12.3*
Consolidated debt service	**9 839**	**10 850**	**11 055**	**11 479**
% change	*4.1*	*10.3*	*1.9*	*3.8*
CONSOLIDATED EXPENDITURE	**90 512**	**94 222**	**96 197**	**98 409**
% change	***2.7***	***4.1***	***2.1***	***2.3***

(1) The Goods and Services Fund was created on April 1, 2013 and the activities of Service Québec, a non-budget-funded body, were transferred to it. For 2012-2013, the financial data of these activities are shown in non-budget-funded bodies while in 2013-2014, they are shown in special funds. On a comparable basis, the growth rate in 2013-2014 stands at 21.6% for special funds and 6.2% for non-budget-funded bodies.
(2) Including doubtful tax accounts.
(3) Consolidation adjustments result mainly from the elimination of reciprocal transactions between entities of various sectors.
(4) Including consolidation adjustments.

❑ Special funds

Excluding debt service, expenditure of special funds will rise by 23.1% in 2013-2014, decline by 2.6% in 2014-2015 and grow by 3.8% in 2015-2016.

The increase in 2013-2014 is chiefly attributable to three factors:

— expenditure by special funds as a whole in 2012-2013 $562 million lower than initially forecast;

— spending growth of certain special funds with own-source revenue, in particular:

  — the FINESSS, for the financing of health establishments,

  — the Fonds des réseaux de transports terrestres, for financing road and public transit infrastructures,

  — the Green Fund, given the deployment of the 2013-2020 Climate Change Action Plan (2013-2020 CCAP),

  — the Natural Resources Fund, following the coming into force of the new forestry regime in 2013 that henceforth includes the cost of silviculture credits that until 2012-2013 were charged against forestry royalties;

— The creation of two funds, namely:

  — the Goods and Services Fund which previously was a non-budget-funded body:

    – the Goods and Services Fund was created on April 1, 2013 and the activities of Service Québec, a non-budget-funded body, were transferred to it. For 2012-2013, the financial data of these activities are shown in non-budget-funded bodies while in 2013-2014, they are shown in special funds. On a comparable basis, the growth rate in 2013-2014 stands at 21.6% for special funds and 6.2% for non-budget-funded bodies;

  — the Health and Social Services Information Resources Fund, formerly SOGIQUE, which is funded essentially by health institutions.

Over two years, spending by special funds, excluding debt service, is adjusted downward by $265 million. The upward adjustment to spending of $297 million in 2013-2014 is more than offset by the decline of $562 million in 2012-2013.

TABLE C.11

Change in spending by special funds excluding debt service

(millions of dollars)

	2012-2013	2013-2014
FINESSS[1]	998	1 502
Fonds des réseaux de transport terrestre	1 911	2 287
Green Fund	393	428
Natural Resources Fund	365	556
Fonds du développement économique	125	330
Fonds relatif à l'administration fiscale	766	837
Goods and Services Fund[2] and Health and Social Services Information Resources Fund	11	137
Subtotal	**4 569**	**6 077**
% change		*33.0*
Other special funds	**2 390**	**2 490**
% change		*4.2*
TOTAL – SPECIAL FUNDS	**6 959**	**8 567**
% change		***23.1***
Adjustments since the March 2013 Update	–562	297
		–265

(1) Fund to Finance Health and Social Services Institutions.

(2) The Goods and Services Fund was created on April 1, 2013 and the activities of Service Québec, a non-budget-funded body, were transferred to it. For 2012-2013, the financial data of these activities are shown in non-budget-funded bodies while in 2013-2014, they are shown in special funds. On a comparable basis, the growth rate in 2013-2014 stands at 21.6% for special funds and 6.2% for non-budget-funded bodies.

❑ Non-budget-funded bodies

From 2013-2014 to 2015-2016, spending by non-budget-funded bodies will rise by 5.7%, 4.3% and 7.7% annually.

The primary mission of certain non-budget-funded bodies accounts for the higher growth in their spending. In particular, that is the case with the Régie de l'assurance maladie du Québec (RAMQ) and the Drug Insurance Fund (DIF).

TABLE C.12

Non-budget-funded bodies – Spending excluding debt service
(millions of dollars)

	2013-2014	2014-2015
RAMQ	7 593	8 156
DIF	3 398	3 589
Subtotal	**10 991**	**11 745**
% change	*9.6*	*6.9*
Other non-budget-funded bodies	**7 326**	**7 361**
% change	*0.3*	*0.5*
TOTAL	**18 317**	**19 106**
% change	***5.7***	***4.3***

❑ Health and social services and education networks

Spending by organizations of the health and social services and the education networks will rise by 2.3%, 1.1% and 1.4% respectively for 2013-2014 to 2015-2016. This increase excludes costs relating to the remuneration of physicians, which is covered by the RAMQ.

2.5 Public capital investment

The 2013-2023 Québec Infrastructures Plan (2013-2023 QIP), released in April 2013, provides for public investments of $92.3 billion over the next ten years. This ten-year plan is part of a long-term approach to manage infrastructure maintenance and development funding.

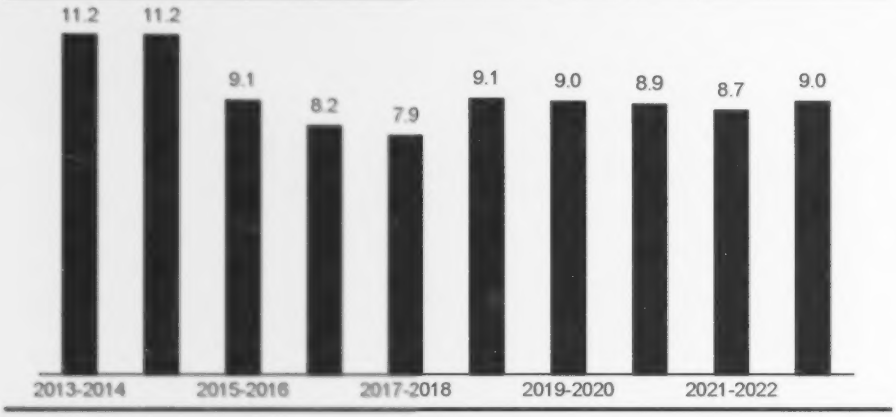
These investments will provide powerful stimulus for economic activity and job creation in every region of Québec while remaining within the government's ability to pay and its debt reduction objectives.

Moreover, to meet the pressing needs to renovate and modernize the infrastructures of schools, community sport and recreation institutions and Sépaq facilities, the government announced, in the *Economic Policy – Putting Jobs First*, an acceleration of $565 million of investment stipulated in the Québec Infrastructures Plan for 2014-2015 to 2017-2018.

The 2013-2023 QIP will still total $92.3 billion, as announced last spring. These are very substantial investments that will enable the government to achieve its objectives to maintain assets in good condition and offset the maintenance deficit.

CHART C.3

2013-2023 Québec Infrastructures Plan including acceleration of investments
(billions of dollars)



Improved capital investment management and project planning

In view of the size of public capital investments and the pressure they exerted on the debt and public finances, the government mandated SECOR-KPMG, in the fall of 2012, to study how the Québec Infrastructures Plan (QIP) was managed and the project planning process.

The conclusions in the SECOR-KPMG report entitled *Étude sur la gestion actuelle du Plan québécois des infrastructures et sur le processus de planification des projets* were unequivocal. Major shortcomings in infrastructure project management and planning were noted, in particular:

- an incomplete and insufficient QIP;
- a moving and undisclosed list of projects;
- a time horizon that was too short and unsuitable for major projects;
- tardy and inadequate project cost validation.

Following these conclusions, the government released in november 2012 the action plan *A Better Way to Manage our Infrastructure* to tighten planning of capital investments and the infrastructure project management process.

Implementation of this action plan consists mainly of:

- the announcement of a new QIP covering a ten-year period and covering all the government's investments;
- the tabling and adoption of the *Act respecting the governance of public infrastructures, establishing the Société québécoise des infrastructures and amending various legislative provisions*.
  - This statute reflects the government's commitment to overhaul how infrastructure management is carried out by proposing a truly long-term vision of project management and investment planning, based on best practices, discipline and transparency.

APPENDIX 1: Sensitivity analysis to economic variables

The financial framework's forecasts incorporate certain components of uncertainty that do not depend on the government directly, but which may cause actual results to differ from the forecasts.

❑ Sensitivity of own-source revenue to economic fluctuations

In general, the nominal GDP forecast is a very good indicator of growth in own-source revenue given the direct link between tax bases and nominal GDP.

— According to the overall sensitivity analysis, a change of one percentage point in nominal GDP has an impact of $500 million on the government's own-source revenue.

This analysis is based on a revision of each tax base in proportion to the revision to nominal GDP.

— In fact, a change in outlook can have a greater effect on some economic variables and have a larger impact on certain tax bases.

The following table shows the sensitivity of the main economic variables affecting the tax bases following a change of 1 percentage point.

TABLE C.13

Sensitivity of own-source revenue to major economic variables

Variables	Growth assumptions for 2013	Impacts for fiscal year 2013-2014
Nominal GDP	2.1%	A difference of 1 percentage point changes own-source revenue by roughly $500 million.
– Wages and salaries	2.9%	A difference of 1 percentage point changes personal income tax revenue by roughly $255 million.
– Net operating surplus of corporations	–6.0%	A difference of 1 percentage point changes corporate income tax revenue by almost $30 million.
– Nominal consumption	2.8%	A difference of 1 percentage point changes QST revenue by roughly $145 million.
– Residential investment	–4.3%	A difference of 1 percentage point changes QST revenue by roughly $20 million.
– Prices of metals produced in Québec	–20.4%	A difference of 1 percentage point changes own-source revenue from mining duties by roughly $6 million.

It should be noted that sensitivity analyses set an average historical relationship between the change in own-source revenue and growth in nominal GDP. Accordingly, they may prove inaccurate for a given year depending on the economic situation and yet not lose their validity.

For a given year, economic fluctuations may have various impacts on revenue depending on the change in behaviour of economic agents.

In these situations, the change in own-source revenue is more pronounced than the change in nominal GDP.

❑ Sensitivity of debt service to a change in interest rates and exchange rates

A greater-than-anticipated rise in interest rates of 1 percentage point over a full year would increase the consolidated interest expenditure by roughly $250 million.

A change in the value of the Canadian dollar compared with other currencies would have no impact on debt service because the government's debt has no foreign currency exposure.

APPENDIX 2: Mining duties revenue forecasts

Last May, the Québec government released a document entitled *A New Mining Tax Regime Fair for All*. The new regime is based on five principles:

— all mining corporations must pay royalties;

— Quebecers must benefit more extensively from mining operations;

— a more jobs in the processing sector;

— more responsible exploitation of mineral resources;

— a more transparent regime.

In addition to stipulating the implementation of a mining tax, the government introduced a progressive mining tax on profit. Accordingly, the higher a mining company's profit margin, the higher the mining tax.

A mining duties regime based on profits enables:

— all Quebecers to benefit from a greater share of earnings from mining resources once the mining operation generates large profits;

— mining companies to charge depreciation against their profits, thus fostering investment.

Accordingly, to forecast mining duties revenue, the factors having an impact on the profit margin of mining companies must be taken into account, i.e.:

— change in metals prices on international markets;

— investments by mining companies and the resulting depreciation;

— production volumes.

Mining duties heavily influenced by prices

A mining regime that depends on how prices move on world markets

Québec's mining duties regime is based on company profits. Fluctuations in price have a direct influence on the profitability of mining companies and therefore on the mining duties they pay.

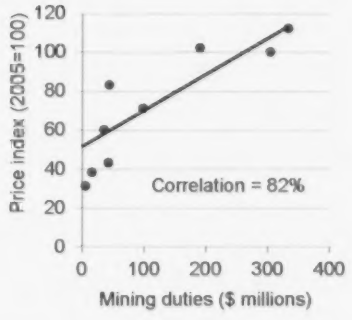
This relation is very strong. Indeed, the correlation between the change in revenue from mining duties in Québec and that of the Québec metal price index (QMPI) is estimated at 82%.

- This correlation even reaches 93% for the price of iron ore, given the significant weight of this resource in mining production in Québec.

An analysis of historical data shows that:

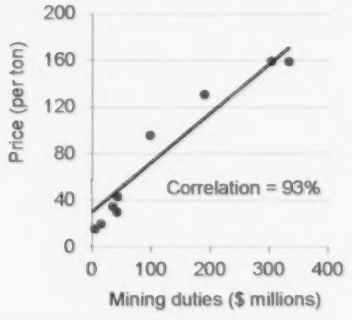
- a 1% drop in the price of metals produced in Québec leads to a 2.7% fall in mining duties;
- a 1% drop in the price of iron ore leads to a 1.4% fall in mining duties.

Mining duties and metal prices



Sources: Bloomberg et Ministère des Finances et de l'Économie du Québec.

Mining duties and the price of iron ore



Sources: Bloomberg et Ministère des Finances et de l'Économie du Québec.

❑ Metal prices have declined since 2011

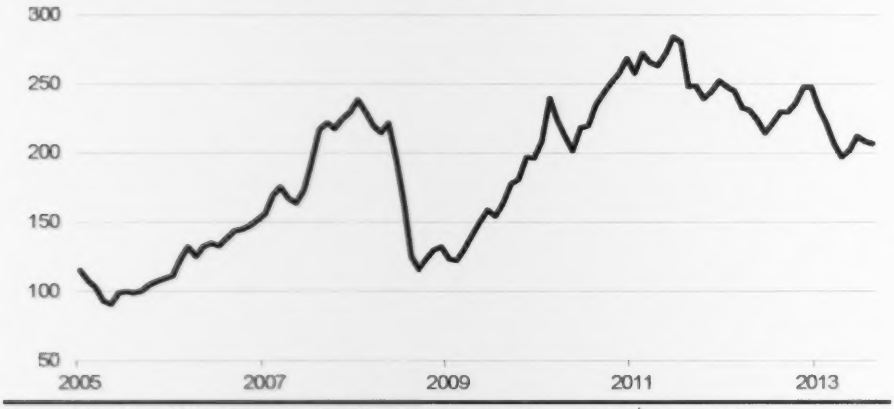
After rising strongly from 2009 to 2011, prices of metals produced in Québec have since tended lower.

— In fact, the Québec metal price index fell from a record high of 284 points in August 2011 to 207 points in October 2013, a drop of 27%.

The global economic slowdown has had a moderating effect on demand for metals. In addition, the increase in global supply, stemming from rising investment in recent years, has also contributed to depressing prices.

CHART C.4

Québec metal price index
(2005=100)



Sources: Bloomberg, Natural Resources Canada and Ministère des Finances et de l'Économie du Québec.

❑ A trend that is expected to continue in the short term

In early 2013, private sector forecasters expected the situation on the metals market to stabilize over the coming years.

They have since adjusted their price forecasts downward and the Ministère des Finances et de l'Économie's recent data on the mining sector indicate a decline of 18.0% in 2013.

— On the basis of estimates of the impact of prices on mining duties revenue, this adjustment to prices will result in a drop in mining duties in 2013-2014 of up to 50%.

The downward trend since 2011 is expected to continue until 2017 so that current prices are more likely to be in the lower range of the forecasts, while last May's projections were based on prices near the average.

— Accordingly, prices of metals produced in Québec are currently below the low price scenario of May 2013.

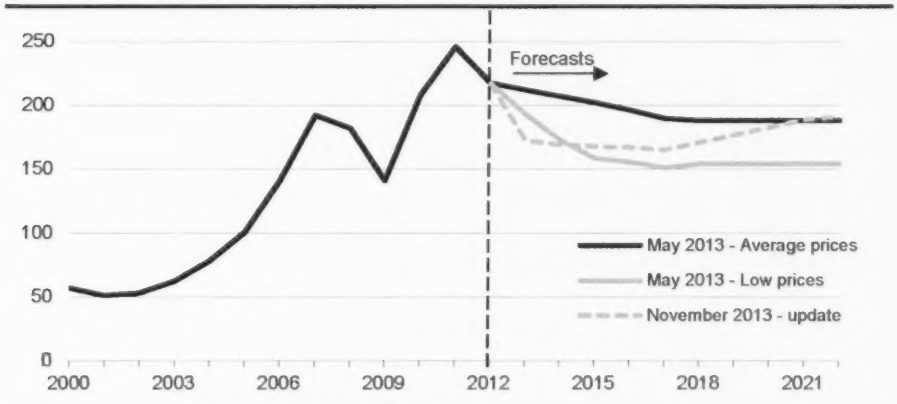
❑ Prices will stabilize in the medium term

The gradual improvement of the global economic situation as well as the ongoing industrialization of emerging economies should lead to rising demand for metals.

Accordingly, it is expected that metal prices will remain at levels near the low price scenario until 2017. They should gradually return to the level of the average price scenario by 2020.

CHART C.5

Outlook for prices of metals
(Index, 2005 = 100)



Sources: Bloomberg and Ministère des Finances et de l'Économie du Québec.

❑ Investment intentions remain stable

Despite the decline in prices for raw materials since 2011, mining investment has continued to rise in Québec. In 2012, mining investment was up for the ninth year in a row, reaching $5.1 billion.

According to the *Enquête annuelle sur l'investissement minier*, investment intentions for 2013 amount to $4.6 billion, $700 million more than in 2011, which would rank 2013 second among the best years for mining investment in Québec.

The significant investments made in recent years by mining companies operating in Québec can be depreciated, which reduces their profit margin. This effect is taken into account in the estimate of mining duties revenue.

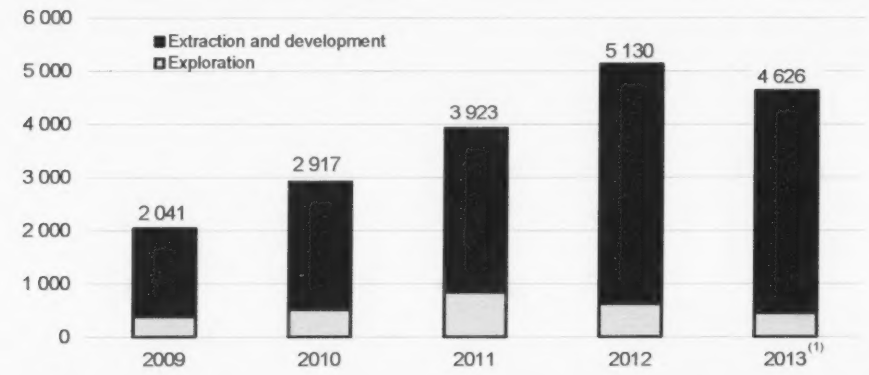
However, such depreciation of mining expenditures means that the decline in prices will have that much more of an impact on profit margins and therefore on mining duties revenue.

— Profit margins of mining companies are currently below the average margin scenario forecast in May 2013.

With the gradual improvement in prices, together with the use of depreciation, profit margins should gradually return to the average level forecast last May, resulting in growth in mining duties revenue.

CHART C.6

Investment in the mining sector
(millions of dollars)



(1) Investment intentions.
Source: Institut de la statistique du Québec.

The growing impact of price on mining duties

Québec has implemented a progressive regime in which mining duties rise faster than profits. On the other hand, when profits fall, mining duties decline faster.

The following case shows, for a given mining operation, the impact of two successive and identical price declines on mining duties. Accordingly, for the same level of production:

- an initial reduction of 15% in prices will reduce mining duties by 32.4%, implying elasticity of 2.2;
- an additional reduction of 15% in prices will reduce mining duties by 40.8%, implying elasticity of 2.7.

Two factors contribute to this situation:

- in a case where production costs are constant, a decline in price results in a proportionally greater drop in mining profits;
- in addition, because of the progressive nature of the mining regime, when margins are low, lower tax rates apply, which amplifies the effect of the price drop in mining duties.

Accordingly, with lower raw materials prices in 2011 and 2012, it can be expected that the price reductions forecast for 2013 will have an even greater impact on mining duties paid.

Illustration of the impacts of successive price declines
(dollars, unless otherwise indicated)

	Initial situation	1st 15% price shock	2nd 15% price shock
Production volume (units)	200 000	200 000	200 000
Price	180	153	130
Gross value of production	**36 000 000**	**30 600 000**	**26 010 000**
Cost of production	–12 500 000	–12 500 000	–12 500 000
Allowance for depreciation and other deductions	–5 000 000	–5 000 000	–5 000 000
Total expenditures	**–17 500 000**	**–17 500 000**	**–17 500 000**
Mining profit	**18 500 000**	**13 100 000**	**8 510 000**
Profit margin	51%	43%	33%
Effective mining duties rate	18%	17%	16%
Mining duties	3 314 000	2 239 400	1 325 990
% change		*–32.4%*	*–40.8%*
Elasticity		**2.2**	**2.7**

❑ Production volumes will continue to rise over the coming years

According to the recent data of the Ministère des Finances et de l'Économie on the mining sector, overall production volumes of mining companies should rise in 2013 despite the decline in metal prices.

Continuing development of existing deposits and the substantial investments of recent years, which will increase production capacity of mining companies in Québec, will help maintain and even expand production volumes in the next few years.

This situation shows that, in spite of the difficult international situation for mining companies, the new mining tax regime encourages the sector's expansion in Québec.

— The rise in production volumes will enable mining duties to increase once prices for raw materials and profit margins return to higher levels.

❑ Forecast yields deferred three years

This revision of market conditions for the next few years means that a decline of $115 million in mining duties compared to the forecast in the March 2013 *Update on Québec's Economic and Financial Situation* is expected.

Following a temporary decline due to factors outside Québec, mining duties should trend upward as of fiscal year 2014-2015.

TABLE C.14

Comparison of forecast mining duties – 2013-2014 to 2020-2021
(millions of dollars)

	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
November 2013 Update	90	130	140	220	300	390	470	550
Mining tax regime – May 2013[1]	—	—	370	—	—	—	—	548
March 2013 Update	205	315	320	365	365	365	365	365
Difference – November – March	**–115**	**–185**	**–180**	**–145**	**–65**	**25**	**105**	**185**

(1) The document entitled *A New Mining Tax Regime Fair for All*, released last May, included forecasts solely for the years 2015-2016 and 2020-2021.
Source: Ministère des Finances et de l'Économie du Québec.

Two factors will combine to lead to a gradual rise in mining duties revenue:

— higher prices, which should gradually return to the average price levels forecast in May 2013;

— the increase in profit margins, which should also gradually return to the average profit margin levels forecast in May 2013.

This means that the yields anticipated from now until 2015 are deferred for three years.

Revenue from mining duties should reach $550 million in 2020-2021, i.e. the level forecast when the new mining duties regime was introduced in May 2013.

Moreover, should the global economy grow more rapidly, this could lead to faster growth in mining duties.

Section D

THE QUÉBEC GOVERNMENT'S DEBT

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INTRODUCTION

Several concepts of debt are used to measure a government's indebtedness. The following table presents data on the debt according to three concepts, i.e. gross debt, net debt and debt representing accumulated deficits.

TABLE D.1

Debt of the Québec government as at March 31
(millions of dollars)

	2013	2014[F]	2015[F]	2016[F]	2017[F]	2018[F]
GROSS DEBT[1]	**191 756**	**198 628**	**205 676**	**209 827**	**211 255**	**212 290**
As a % of GDP	*53.6*	*54.4*	*54.3*	*53.3*	*51.8*	*50.3*
Less: Financial assets, net of other liabilities	–16 269	–16 502	–14 532	–15 877	–16 172	–17 160
NET DEBT	**175 487**	**182 126**	**191 144**	**193 950**	**195 083**	**195 130**
As a % of GDP	*49.0*	*49.8*	*50.5*	*49.3*	*47.8*	*46.2*
Less: Non-financial assets	–57 392	–62 600	–67 864	–72 331	–75 872	–78 915
DEBT REPRESENTING ACCUMULATED DEFICITS	**118 095**	**119 526**	**123 280**	**121 619**	**119 211**	**116 215**
As a % of GDP	*33.0*	*32.7*	*32.6*	*30.9*	*29.2*	*27.5*

F: Forecasts.
(1) The gross debt excludes pre-financing and takes into account the amounts accumulated in the Generations Fund.

1. GROSS DEBT

Gross debt represents the amount of debt contracted on financial markets and the net liabilities in respect of the retirement plans and future benefits of public and parapublic sector employees, minus the balance of the Generations Fund.

As at March 31, 2013, the gross debt amounted to $191 756 million, equivalent to 53.6% of GDP. As at March 31, 2014, the gross debt should reach $198 628 million, i.e. 54.4% of GDP. As of 2014-2015, the ratio of gross debt to GDP should gradually decline to 50.3% as at March 31, 2018.

TABLE D.2

Gross debt as at March 31
(millions of dollars)

	2013	2014[F]	2015[F]	2016[F]	2017[F]	2018[F]
Consolidated direct debt[(1)]	168 616	175 774	183 394	188 745	192 370	196 545
Plus: Net retirement plans liability	28 359	28 461	29 185	29 646	29 857	29 713
Plus: Net employee future benefits liability	19	—	—	—	—	—
Less: Generations Fund	–5 238	–5 607	–6 903	–8 564	–10 972	–13 968
GROSS DEBT[(1)]	**191 756**	**198 628**	**205 676**	**209 827**	**211 255**	**212 290**
As a % of GDP	***53.6***	***54.4***	***54.3***	***53.3***	***51.8***	***50.3***

F: Forecasts.
(1) The consolidated direct debt and the gross debt exclude pre-financing.

Revision to the gross debt compared to the March 2013 Update

In 2012-2013, the gross debt grew by $8 372 million, i.e. $1 885 million less than forecast in the March 2013 *Update on Québec's Economic and Financial Situation*.

This downward revision is attributable to lower borrowings than expected for capital investments and favourable changes in accounting items such as accounts payable and receivable.

As a percentage of GDP, the gross debt as at March 31, 2013 was revised downward by 0.6 percentage point, from 54.2% to 53.6%.

Factors responsible for the growth in the gross debt in 2012-2013
(millions of dollars)

	March 2013 Update	Real results	Difference
Gross debt as at March 31, 2012	**183 384**	**183 384**	**—**
***As a % of GDP*[1]**	***53.0***	***53.1***	***0.1***
Growth factors:			
Budget deficit	1 500	1 600	100
Impact of the closure of Gentilly-2	1 876	1 876	—
Investments, loans and advances	486	659	173
Capital investments	5 817	4 863	–954
Other factors[2]	1 514	335	–1 179
Generations Fund	–936	–961	–25
Total change	**10 257**	**8 372**	**–1 885**
Gross debt as at March 31, 2013	**193 641**	**191 756**	**–1 885**
As a % of GDP	***54.2***	***53.6***	***–0.6***

(1) With respect to the March 2013 Update, the gross-debt-to-GDP ratio as at March 31, 2012 has been slightly revised upward from 53.0% to 53.1% because of a downward revision of nominal GDP in 2011.
(2) Includes, in particular, the change in accounts payable and accounts receivable.

Retirement plans liability

The net retirement plans liability is calculated by subtracting from the retirement plans liability the balance of the Retirement Plans Sinking Fund (RPSF), an asset established to pay the retirement benefits of public and parapublic sector employees.

The retirement plans liability represents the present value of the retirement benefits the government will pay to public and parapublic sector employees, taking into account the conditions of their plans and their years of service. This liability stood at $76 703 million as at March 31, 2013.

The government created the RPSF in 1993. As at March 31, 2013, the book value of the RPSF stood at $48 344 million.

Thus, the net retirement plans liability represented $28 359 million as at March 31, 2013.

Net retirement plans liability as at March 31, 2013
(millions of dollars)

Retirement plans liability	
Government and Public Employees Retirement Plan (RREGOP)	46 344
Pension Plan of Management Personnel (PPMP) and Retirement Plan for Senior Officials (RPSO)	10 706
Other plans[1]	19 653
Subtotal	**76 703**
Less: Retirement Plans Sinking Fund	–48 344
NET RETIREMENT PLANS LIABILITY	**28 359**

(1) The liability for the other plans takes into account the assets of the other plans, including those of the Pension Plan of the Université du Québec.

Employee future benefits liability

The government records in its debt the value of its commitments regarding future benefits programs for its employees, namely, programs for accumulated sick leave and for pensions paid to the survivors of government employees. These programs give rise to long-term obligations whose costs are covered in full by the government.

As at March 31, 2013, the employee future benefits liability stood at $1 262 million.

As at March 31, 2013, the value of the sums accumulated to pay for employee future benefits programs (Accumulated Sick Leave Fund and Survivor's Pension Plan Fund) stood at $1 243 million.

Taking these funds into account, the net employee future benefits liability stood at $19 million as at March 31, 2013.

Net employee future benefits liability as at March 31, 2013
(millions of dollars)

Employee future benefits liability	
Accumulated sick leave	676
Survivor's pension plan	408
Université du Québec programs	178
Subtotal	**1 262**
Less:	
Accumulated Sick Leave Fund	–798
Survivor's Pension Plan Fund	–445
Subtotal	**–1 243**
NET EMPLOYEE FUTURE BENEFITS LIABILITY	**19**

Generations Fund

The Generations Fund was created in June 2006 through the adoption of the *Act to reduce the debt and establish the Generations Fund*. The sums accumulated in the fund are dedicated solely to repaying the debt.

As at March 31, 2013, the book value of the Generations Fund stood at $5 238 million.

The sums accumulated in the Generations Fund should reach $13 968 million as at March 31, 2018.

Generations Fund
(millions of dollars)

	2012-2013	2013-2014[F]	2014-2015[F]	2015-2016[F]	2016-2017[F]	2017-2018[F]
Book value, beginning of year	**4 277**	**5 238**	**5 607**	**6 903**	**8 564**	**10 972**
Dedicated revenues						
Water-power royalties						
Hydro-Québec	625	668	661	678	691	708
Private producers	92	92	92	94	96	98
	717	760	753	772	787	806
Indexation of the price of heritage pool electricity	—	—	71	165	265	370
Mining revenues	—	—	—	132	212	292
Tax on alcoholic beverages	—	—	100	100	525	525
Savings related to the closure of Gentilly-2	—	—	—	—	—	215
Unclaimed property	12	15	9	9	9	9
Investment income	232	294	363	483	610	779
Total dedicated revenues	**961**	**1 069**	**1 296**	**1 661**	**2 408**	**2 996**
Deposit from the Territorial Information Fund	—	300	—	—	—	—
Total deposits	**961**	**1 369**	**1 296**	**1 661**	**2 408**	**2 996**
Use of the Generations Fund to repay maturing borrowings	—	–1 000	—	—	—	—
Book value, end of year	**5 238**	**5 607**	**6 903**	**8 564**	**10 972**	**13 968**

F: Forecasts.

❑ Factors responsible for growth in the gross debt

In 2013-2014, the gross debt is expected to increase by $6 872 million, mainly because of capital investments ($5 208 million) and the budget deficit ($2 500 million).

The table on the following page shows in detail the factors responsible for the growth in the government's gross debt since March 31, 2000.

TABLE D.3

Factors responsible for the growth in the Québec government's gross debt

(millions of dollars)

	Debt, beginning of the year	Budget deficit (surplus)	Impact of the closure of Gentilly-2	Investments, loans and advances	Net investment in the networks[1]	Net capital investments[2]	Other factors[3]	Generations Fund[4]	Total change	Debt, end of year	As a % of GDP
With networks consolidated at modified equity value											
2000-2001	116 761	–427		1 701	841	578	1 108		3 801	120 562	53.6
2001-2002	120 562	–22		1 248	934	1 199	–9		3 350	123 912	53.5
2002-2003	123 912	728		1 921	631	1 706	237		5 223	129 135	53.5
2003-2004	129 135	358		1 367	560	1 186	625		4 096	133 231	53.1
2004-2005	133 231	664		1 303	1 486	1 006	–796		3 663	136 894	52.1
2005-2006	136 894	–37		1 488	1 013	1 179	–809		2 834	139 728	51.4
2006-2007	139 728	–109		2 213	1 002	1 177	1 078	–584	4 777	144 505	51.2
2007-2008	144 505	—		2 658	487	1 457	767	–649	4 720	149 225	48.8
2008-2009	149 225	—		966	622	2 448	–28	–719	3 289	152 514	48.6
With networks consolidated line by line[5]											
2009-2010	157 630	3 174		1 746		4 226	–2 733	–725	5 688	163 318	51.8
2010-2011	163 318	3 150		2 507		4 923	298	–760	10 118	173 436	52.6
2011-2012	173 436	2 628		1 861		5 071	1 228	–840	9 948	183 384	53.1
2012-2013	183 384	1 600	1 876	659		4 863	335	–961	8 372	191 756	53.6
2013-2014	191 756	2 500		1 454		5 208	–921	–1 369	6 872	198 628	54.4
2014-2015	198 628	1 750		1 299		5 264	31	–1 296	7 048	205 676	54.3
2015-2016	205 676	—		1 367		4 467	–22	–1 661	4 151	209 827	53.3
2016-2017	209 827	—		1 427		3 541	–1 132	–2 408	1 428	211 255	51.8
2017-2018	211 255	—		843		3 043	145	–2 996	1 035	212 290	50.3

(1) The net investment in the networks includes mainly loans by Financement-Québec and the Corporation d'hébergement du Québec to institutions in the health and social services and the education networks. Since 2009-2010, these items have been part of net capital investments.
(2) Investments made under private-public partnership agreements are included in net capital investments.
(3) Other factors include in particular the change in other accounts, such as accounts receivable and accounts payable.
(4) Deposits in the Generations Fund in 2013-2014 include $1 069 million in dedicated revenues and $300 million from the accumulated surplus of the Territorial Information Fund.
(5) The line-by-line consolidation of the financial statements of institutions of the health and social services and the education networks raised the gross debt by $5 116 million as at March 31, 2009. This amount represents the debt contracted by the networks in their own name. The data prior to 2009-2010 could not be restated and are thus not comparable.

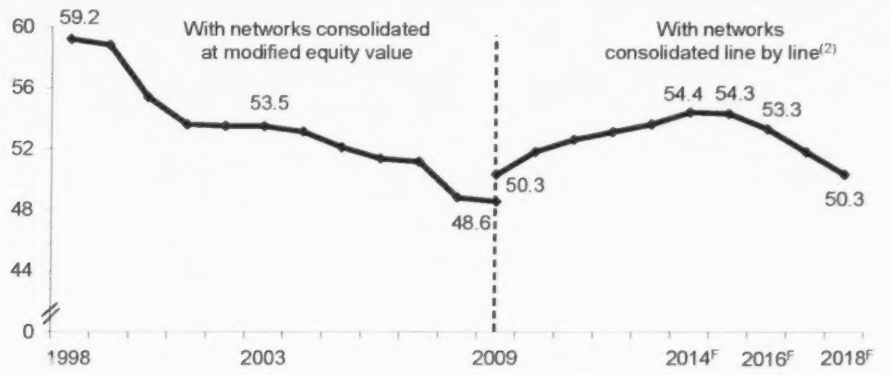
❑ Gross debt burden

Between 1998 and 2009, the government's gross-debt-to-GDP ratio fell significantly. While the gross debt was equivalent to 59.2% of GDP as at March 31, 1998, this ratio stood at 53.5% as at March 31, 2003 and 48.6% as at March 31, 2009. Line-by-line consolidation of the network institutions' financial statements with those of the government raised the gross-debt-to-GDP ratio to 50.3% as at March 31, 2009.

The ratio has risen since 2009 mainly because of the increase in capital investments and the 2008-2009 recession. The debt burden is expected to decrease as of 2014-2015.

CHART D.1

Gross debt as at March 31[1]
(as a percentage of GDP)



F: Forecasts.
(1) The gross debt excludes pre-financing and takes into account the sums accumulated in the Generations Fund.
(2) The gross debt takes into account the debt that the health and social services and the education networks have contracted in their own name. Accordingly, the data as of 2009 are not comparable with those for prior years since they do not include this debt.

2. NET DEBT

Net debt is equal to the Québec government's liabilities less its financial assets. It represents the debt that has funded capital investments and current expenditures. Net debt is obtained by subtracting from the gross debt the government's financial assets, net of other liabilities.

As at March 31, 2013, the net debt amounted to $175 487 million, equivalent to 49.0% of GDP. As a proportion of GDP, the net debt will rise to 50.5% as at March 31, 2015, then gradually decrease to 46.2% as at March 31, 2018.

TABLE D.4

Factors responsible for the growth in the net debt
(millions of dollars)

	Debt, beginning of year	Budget deficit	Impact of the closure of Gentilly-2	Net capital investments	Deposits to the Generations Fund	Other	Total change	Debt, end of year	As a % of GDP
2012-2013	167 700	1 600	1 876	4 863	–961	409[1]	7 787	175 487	49.0
2013-2014[F]	175 487	2 500		5 208	–1 069	—	6 639	182 126	49.8
2014-2015[F]	182 126	1 750		5 264	–1 296	3 300[2]	9 018	191 144	50.5
2015-2016[F]	191 144	—		4 467	–1 661	—	2 806	193 950	49.3
2016-2017[F]	193 950	—		3 541	–2 408	—	1 133	195 083	47.8
2017-2018[F]	195 083	—		3 043	–2 996	—	47	195 130	46.2

F: Forecasts.
(1) Includes, in particular, changes stemming from inventories and prepaid expenses that are non-financial assets.
(2) Provision for the impact of the eventual transition of Hydro-Québec to International Financial Reporting Standards. This provision is explained in the following pages.

3. DEBT REPRESENTING ACCUMULATED DEFICITS

The debt representing accumulated deficits corresponds to the difference between the Québec government's liabilities and its financial and non-financial assets as a whole. This debt is calculated by subtracting financial assets, net of other liabilities, as well as non-financial assets from the gross debt.

As at March 31, 2013, the debt representing accumulated deficits stood at $118 095 million, or 33.0% of GDP. As at March 31, 2014, the debt representing accumulated deficits should amount to $119 526 million, or 32.7% of GDP. As a proportion of GDP, the debt representing accumulated deficits will continue to decline, reaching 27.5% as at March 31, 2018.

TABLE D.5

Factors responsible for the growth in the debt representing accumulated deficits
(millions of dollars)

	Debt, beginning of year	Budget deficit	Impact of the closure of Gentilly-2	Deposits to the Generations Fund	Other	Total change	Debt, end of year	As a % of GDP
2012-2013	115 220	1 600	1 876	–961	360	2 875	118 095	33.0
2013-2014[F]	118 095	2 500		–1 069	—	1 431	119 526	32.7
2014-2015[F]	119 526	1 750		–1 296	3 300	3 754	123 280	32.6
2015-2016[F]	123 280	—		–1 661	—	–1 661	121 619	30.9
2016-2017[F]	121 619	—		–2 408	—	–2 408	119 211	29.2
2017-2018[F]	119 211	—		–2 996	—	–2 996	116 215	27.5

F: Forecasts.

The debt representing accumulated deficits in 2014-2015 takes into account a provision of $3.3 billion for the impact of the eventual transition of Hydro-Québec to International Financial Reporting Standards (IFRS). In February 2013, the Accounting Standards Board of Canada postponed, for the fourth time, the mandatory changeover to IFRS for corporations like Hydro-Québec that engage in rate-regulated activities. The anticipated date is now January 1, 2015, which would affect the government's 2014-2015 fiscal year.

Based on information available as at September 30, 2013, the impact of Hydro-Québec's changeover to IFRS would be roughly $5 billion. However, it is important to point out that enterprises similar to Hydro-Québec in British Columbia (BC Hydro) and Ontario (Hydro One) have adopted American accounting standards for their rate-regulated activities instead of IFRS.

Given the uncertainty surrounding the final impact of the change in accounting standards for Hydro-Québec, it has been decided to maintain the restatement at $3.3 billion, indicated in the March and November 2012 budgets, but to apply it in 2014-2015. It should be noted that Hydro-Québec's eventual transition to IFRS will have no impact on the government's gross debt.

4. DEBT REDUCTION OBJECTIVES

In this current update, the government confirms that it maintains the debt reduction objectives included in the *Act to reduce the debt and establish the Generations Fund*:

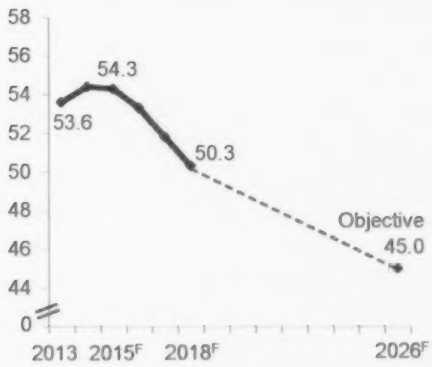
— 45% of GDP for the gross debt as at March 31, 2026;

— 17% of GDP for the debt representing accumulated deficits as at March 31, 2026.

CHART D.2

Gross debt as at March 31

(as a percentage of GDP)



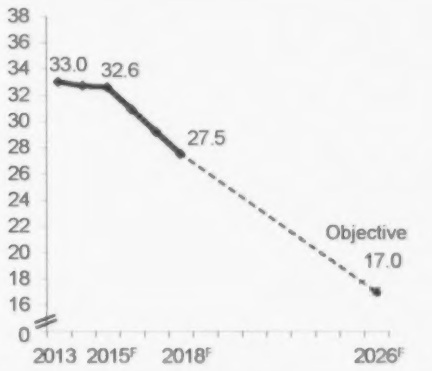
F: Forecasts for 2014 to 2018 and projections for subsequent years.

Note: The gross debt excludes pre-financing and takes into account the sums accumulated in the Generations Fund.

CHART D.3

Debt representing accumulated deficits as at March 31

(as a percentage of GDP)



F: Forecasts for 2014 to 2018 and projections for subsequent years.

To achieve the debt reduction objectives, the government announced in the November 2012 budget that it will deposit in the Generations Fund:

— The revenue generated by the indexation of the price of heritage pool electricity starting in 2014. This will amount to $71 million in 2014-2015, $165 million in 2015-2016, $265 million in 2016-2017 and $370 million in 2017-2018.

— All mining revenues as of 2015-2016. This will amount to $132 million in 2015-2016, $212 million in 2016-2017 and $292 million in 2017-2018.

— The savings, as of 2017-2018, stemming from the closure of the Gentilly-2 nuclear power plant, which will amount to $215 million per year.

— An amount of $100 million per year, as of 2014-2015, generated by the increase in the specific tax on alcoholic beverages.

The government also announced a reduction in planned capital investments.

As mentioned in section A of this document, the government will make additional deposits into the Generations Fund as of 2016-2017 to achieve the debt reduction objectives. These additional amounts will be drawn from the specific tax on alcoholic beverages and will represent additional deposits of $425 million per year.

Owing to the new revenue sources, which are over and above those currently dedicated to the Generations Fund, the Fund should reach $14.0 billion as at March 31, 2018.

5. PUBLIC SECTOR DEBT

Public sector debt includes the government's gross debt as well as the debt of Hydro-Québec, municipalities, universities other than the Université du Québec and its constituents, and other government enterprises. This debt has served in particular to fund public infrastructure, such as roads, schools, hospitals, hydroelectric dams and water treatment plants.

As at March 31, 2013, Québec's public sector debt stood at $256 425 million, or 71.7% of GDP. These figures must be seen in perspective for they do not take into account the economic value of certain assets held by the government, such as Hydro-Québec, the Société des alcools du Québec and Loto-Québec.

TABLE D.6

Public sector debt as at March 31
(millions of dollars)

	2010	2011	2012	2013
Government's gross debt[1]	163 318	173 436	183 384	191 756
Hydro-Québec	36 385	37 723	38 514	39 631
Municipalities[2]	19 538	20 307	20 719	21 820
Universities other than the Université du Québec and its constituents[3]	1 930	1 925	1 797	1 739
Other government enterprises[4]	697	1 363	1 363	1 479
PUBLIC SECTOR DEBT	**221 868**	**234 754**	**245 777**	**256 425**
As a % of GDP	***70.3***	***71.2***	***71.2***	***71.7***

(1) The gross debt excludes pre-financing and takes into account the sums accumulated in the Generations Fund.
(2) These amounts correspond to the long-term debt contracted by municipalities in their own name. Part of this debt is subsidized by the government ($3 899 million as at March 31, 2013).
(3) These amounts correspond to the debt contracted by universities other than the Université du Québec and its constituents in their own name. Part of this debt is subsidized by the government ($65 million as at March 31, 2013).
(4) These amounts correspond to the debt contracted by the Financing Fund to finance government enterprises and entities not included in the reporting entity.

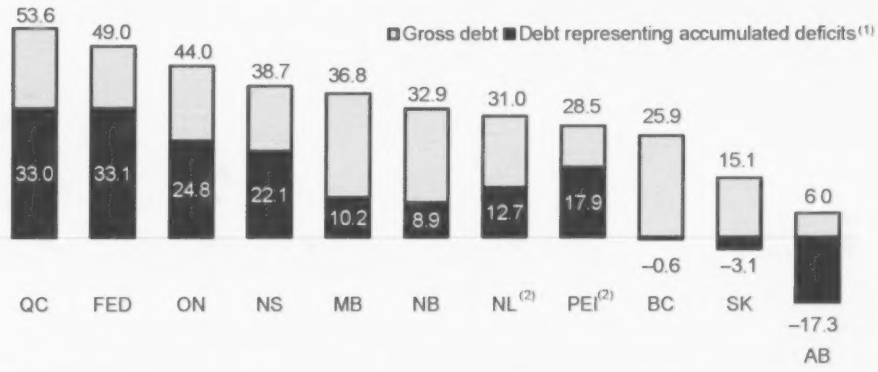
6. COMPARISON OF THE DEBT OF GOVERNMENTS IN CANADA

Whether on the basis of gross debt or debt representing accumulated deficits, as a percentage of GDP, Québec is the most heavily indebted province.

As at March 31, 2013, the ratio of gross debt to GDP was 53.6% in Québec compared with 44.0% in Ontario, the second most indebted province, and 38.7% in Nova Scotia, which ranks third.

CHART D.4

Gross debt and debt representing accumulated deficits as at March 31, 2013
(as a percentage of GDP)



(1) A negative entry means that the government has an accumulated surplus.
(2) Data as at March 31, 2012 because, for these provinces, the 2012-2013 public accounts had not been published by November 22, 2013.
Sources: Governments' public accounts, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

The table on the following page shows the debt of the federal government and each province as at March 31, 2013. The boxes indicate the debt concept used by each government in its budget documents to measure its debt level. Some governments use more than one concept.

Contrary to the net debt and debt representing accumulated deficits, gross debt cannot be observed directly in the public accounts of the other governments in Canada. However, the public accounts show the components of gross debt, i.e. the consolidated direct debt, the net retirement plans liability and the net employee future benefits liability. Therefore, it is possible to calculate the level of the gross debt according to the concept used by Québec.

TABLE D.7

Debt as at March 31, 2013 according to various concepts

(millions of dollars)

	QC	FED	ON	NS	MB	NB	NL[1]	PEI[1]	BC	SK	AB
Consolidated direct debt	**168 616**	**673 046**	**292 599**	**12 869**	**19 155**	**10 177**	**5 202**	**1 434**	**55 061**	**5 013**	**7 752**
Net retirement plans liability	28 359	151 667	–6 352	230	1 828	–150	3 090	96	165	6 774	10 852
Net employee future benefits liability	19	67 301	10 714	1 774	434	347	2 083	3	1 760		
Generations Fund	–5 238										
Gross debt	**191 756**	**892 014**	**296 961**	**14 873**	**21 417**	**10 374**	**10 375**	**1 533**	**56 986**	**11 787**	**18 604**
As a % of GDP	*53.6*	*49.0*	*44.0*	*38.7*	*36.8*	*32.9*	*31.0*	*28.5*	*25.9*	*15.1*	*6.0*
Less: Financial assets, net of other liabilities	–16 269	–220 651	–44 873	–919	–5 524	680	–2 550	318	–18 850	–6 678	–30 796
Net debt[2]	**175 487**	**671 363**	**252 088**	**13 954**	**15 893**	**11 054**	**7 825**	**1 851**	**38 136**	**5 109**	**–12 192**
As a % of GDP	*49.0*	*36.9*	*37.4*	*36.3*	*27.3*	*35.0*	*23.4*	*34.4*	*17.3*	*6.6*	*–3.9*
Less: Non-financial assets	–57 392	–68 922	–84 956	–5 472	–9 957	–8 258	–3 582	–887	–39 521	–7 558	–41 780
Debt representing accumulated deficits[2]	**118 095**	**602 441**	**167 132**	**8 482**	**5 936**	**2 796**	**4 243**	**964**	**–1 385**	**–2 449**	**–53 972**
As a % of GDP	*33.0*	*33.1*	*24.8*	*22.1*	*10.2*	*8.9*	*12.7*	*17.9*	*–0.6*	*–3.1*	*–17.3*

Note: The boxes indicate the debt concept(s) used in the budget papers of the government concerned.

(1) Data as at March 31, 2012 because, for these provinces, the 2012-2013 public accounts had not been published by November 22, 2013.

(2) A negative entry means that the government has net assets or an accumulated surplus.

Sources: Governments' public accounts, Statistics Canada and Ministère des Finances et de l'Économie du Québec.

APPENDIX 1: INFORMATION ON FINANCING AND DEBT MANAGEMENT

1.1 The financing program

The financing program for 2013-2014 should amount to $15 462 million. This is an increase of $3 791 million compared with what was forecast in the March 2013 *Update on Québec's Economic and Financial Situation*.

This increase is attributable to additional net financial requirements of $3 061 million, a deposit of $500 million to the Retirement Plans Sinking Fund (RPSF) as well as additional contributions of $1 398 million to the Sinking Fund for government borrowings under the government policy to increase its prudential liquidity (see section 1.3 for more details). These amounts are partially offset by additional pre-financing of $839 million made in 2012-2013.

TABLE D.8

The government's financing program in 2013-2014

(millions of dollars)

	March 2013 Update	Revisions	Revised program	Completed[1]	To be completed
GENERAL FUND					
Net financial requirements (surplus)[2],[3]	–392	3 061	2 669		
Repayments of borrowings	4 569	72	4 641		
Use of the Generations Fund to repay maturing borrowings	–1 000	—	–1 000		
Change in cash position[4]	–2 646	–839	–3 485		
Deposit to the Retirement Plans Sinking Fund[5]	—	500	500		
Transactions under the credit policy[6]	—	–84	–84		
Additional contributions to the Sinking Fund for borrowings	2 140	1 398	3 538		
GENERAL FUND	**2 671**	**4 108**	**6 779**		
FINANCING FUND	**8 000**	**–317**	**7 683**		
Subtotal - General fund and Financing Fund	**10 671**	**3 791**	**14 462**	**10 940**	**3 522**
FINANCEMENT-QUÉBEC	**1 000**	**—**	**1 000**	**1 000**	**—**
TOTAL	**11 671**	**3 791**	**15 462**	**11 940**	**3 522**
Including: repayments of borrowings[7]	9 538	77	9 615		

Note: A negative entry indicates a source of financing and a positive entry, a financial requirement.

(1) Borrowings completed as at November 22, 2013.

(2) These amounts exclude the net financial requirements of consolidated entities funded through the financing program of the Financing Fund.

(3) Net financial requirements are adjusted to take into account the non-receipt of revenues of the RPSF and of funds dedicated to employee future benefits.

(4) Corresponds to pre-financing made in 2012-2013.

(5) Deposits to the RPSF are optional. They are recorded in the financing program only once they are made.

(6) Under its credit policy, which is designed to limit financial risk with respect to counterparties, the government disburses or receives amounts because of movements in exchange rates. These payments have no effect on the debt.

(7) Includes repayments of borrowings of the general fund ($4 641 million), the Financing Fund ($1 252 million) and Financement-Québec ($3 722 million).

The financing program should amount to $19 626 million in 2014-2015 and $17 201 million in 2015-2016.

TABLE D.9

The government's financing program in 2014-2015 and 2015-2016
(millions of dollars)

	2014-2015[F]	2015-2016[F]
GENERAL FUND		
Net financial requirements[1],[2]	2 638	1 968
Repayments of borrowings	7 634	7 077
GENERAL FUND	**10 272**	**9 045**
FINANCING FUND	**8 354**	**7 156**
Subtotal - General fund and Financing Fund	**18 626**	**16 201**
FINANCEMENT-QUÉBEC	**1 000**	**1 000**
TOTAL	**19 626**	**17 201**
Including: repayments of borrowings[3]	12 278	10 144

F: Forecasts.
Note: A negative entry indicates a source of financing and a positive entry, a financial requirement.
(1) These amounts exclude the net financial requirements of consolidated entities funded through the financing program of the Financing Fund.
(2) Net financial requirements are adjusted to take into account the non-receipt of revenues of the RPSF and of funds dedicated to employee future benefits.
(3) Includes repayments of borrowings of the general fund ($7 634 million in 2014-2015 and $7 077 million in 2015-2016), the Financing Fund ($1 133 million in 2014-2015 and $1 187 million in 2015-2016) and Financement-Québec ($3 511 million in 2014-2015 and $1 880 million in 2015-2016).

1.2 Financing strategy

The government aims to borrow at the lowest possible cost. To that end, it applies a strategy for diversifying sources of funding by market, financial instrument and maturity.

1.2.1 Diversification by market

Financing transactions are carried out regularly on most markets, i.e. in Canada, the United States, Europe and Asia.

From 2003-2004 to 2012-2013, 16% of borrowings were contracted in foreign currencies. Nonetheless, the government keeps no exposure to its gross debt to these currencies (see section 1.7).

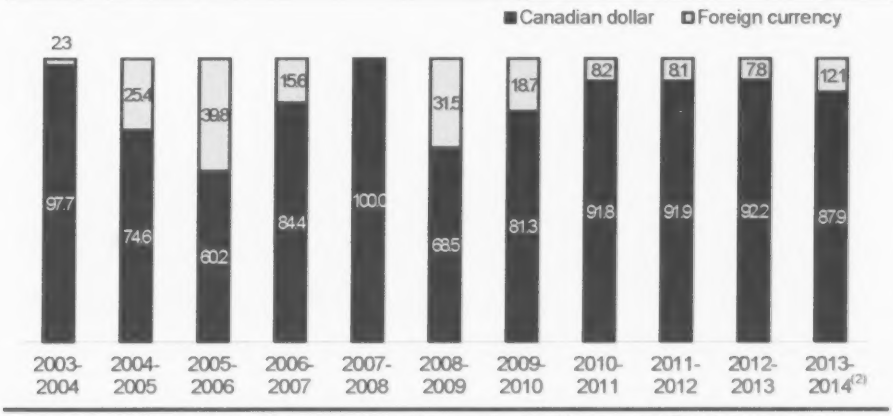
In 2013-2014, the government carried out to date 12.1% of its borrowings on foreign markets, i.e.:

— €65 million (C$88 million) in June 2013;

— €1 000 million (C$1 358 million) in July 2013.

CHART D.5

Borrowings by currency[1]
(per cent)



(1) Borrowings of the general fund, borrowings for the Financing Fund and borrowings of Financement-Québec.
(2) Borrowings completed as at November 22, 2013.

1.2.2 Diversification by instrument

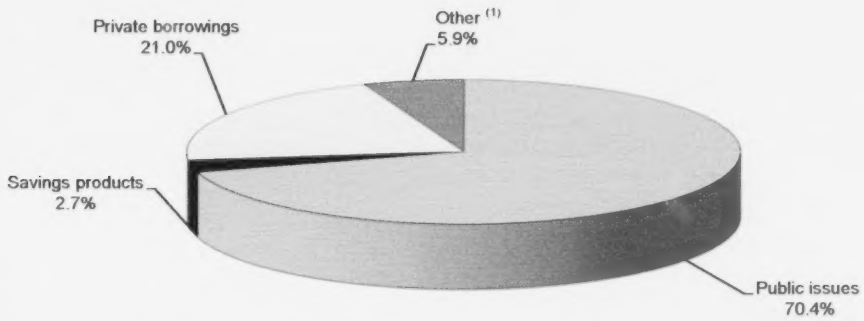
To satisfy investors' needs, an extensive array of financial products is used in the course of financing transactions.

Long-term instruments consist primarily of public bond issues, private borrowings and savings products.

So far in 2013-2014, the instruments used consist mainly of public issues (70.4%).

CHART D.6

Long-term borrowings completed in 2013-2014
(per cent)



Note: Borrowings completed as at November 22, 2013.
(1) Includes the Business Assistance - Immigrant Investor Program.

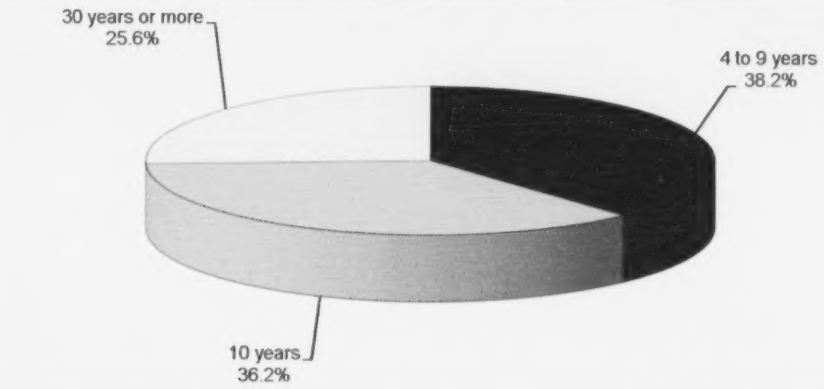
1.2.3 Diversification by maturity

Maturities of new borrowings are distributed over time to obtain a stable refinancing profile and ensure the government's regular presence on capital markets.

For borrowings completed so far in 2013-2014, 38.2% had a maturity of less than 10 years, 36.2% a maturity of 10 years and 25.6% a maturity of 30 years or more.

CHART D.7

Long-term borrowings completed in 2013-2014 by maturity
(per cent)

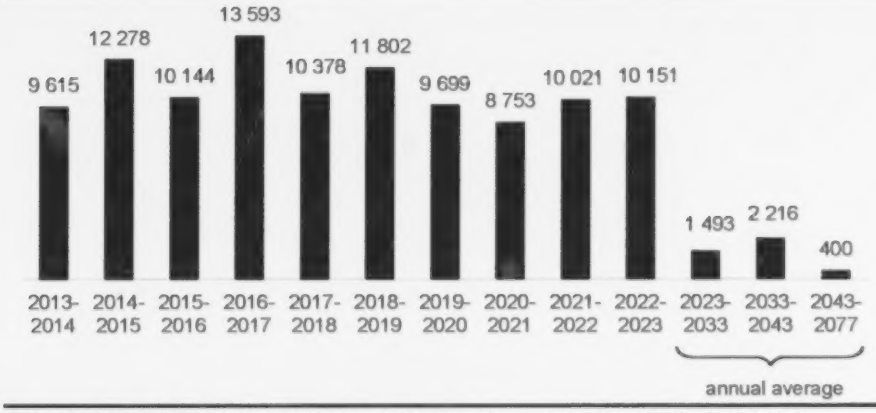


Note: Borrowings completed as at November 22, 2013.

This diversification by maturity is reflected on the maturity of the debt shown in the following chart. As at March 31, 2013, the average maturity of the debt was 12 years.

CHART D.8

Maturity of the long-term debt as at March 31, 2013
(millions of dollars)



Note: Direct debt of the general fund, debt contracted to make advances to the Financing Fund and debt of Financement-Québec.

1.3 Increase in the government's prudential liquidity

As indicated in the March 2012 budget, the Ministère des Finances et de l'Économie implemented in 2012-2013 a policy aimed at increasing the level of the government's prudential liquidity over a two-year period (2012-2013 and 2013-2014). These liquid assets will be available for use in the event of major turbulence on financial markets.

To date, $7.4 billion has been borrowed and deposited into the Sinking Fund for government borrowings. These sums are invested in very liquid government securities, such as federal Treasury bills. This will make it possible, in the event of major financial market turbulence where it is difficult to contract short- or long-term borrowings, to sell these securities and quickly recover the liquid assets. These assets can then be used to buy short-term securities issued by the Québec government, thus enabling it to meet its financial obligations. Once the turbulence is over and the short-term securities issued by the Québec government have matured, the Sinking Fund for government borrowings may again buy very liquid securities such as federal Treasury bills.

Since the sums borrowed have been deposited in the Sinking Fund for government borrowings, there is no impact on the government's gross debt. This is because the value of a borrowings sinking fund is subtracted from the debt in accordance with accounting standards.

The government's prudential liquidities are equivalent to close to half of the annual financing requirements expected over the coming years.

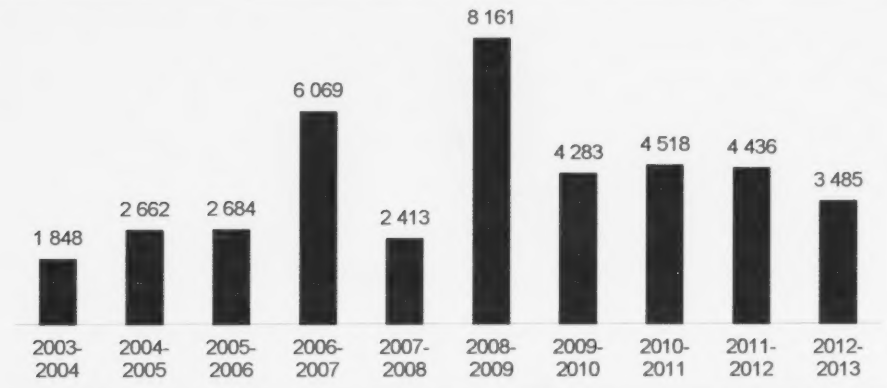
1.4 Pre-financing

The government carries out pre-financing to take advantage of favourable market conditions. These are borrowings that would normally be contracted during the subsequent fiscal year.

Over the past 10 years, the government has contracted, on average, pre-financing of $4 056 million a year.

CHART D.9

Pre-financing
(millions of dollars)

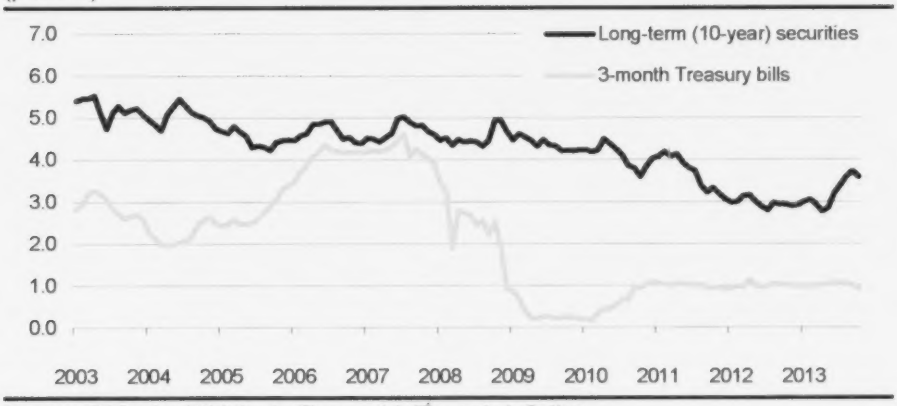


1.5 Yield

The yield on the Québec government's long-term securities is currently about 3.6% with short-term rates at about 1.0%.

CHART D.10

Yield on Québec securities
(per cent)

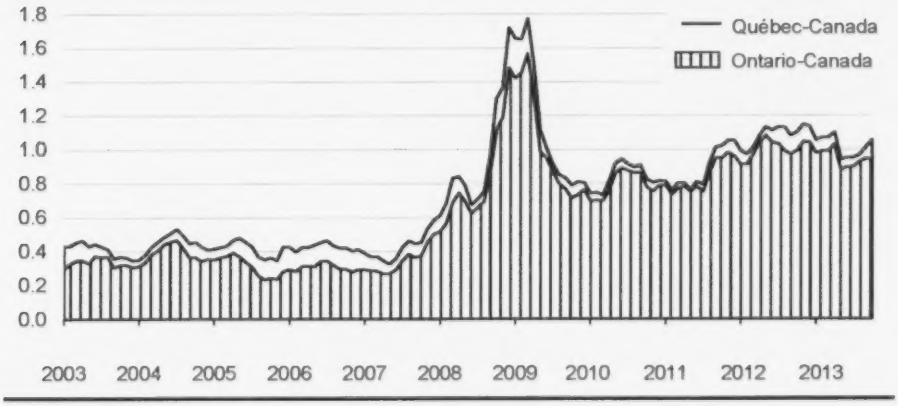


Sources: PC-Bond and Ministère des Finances et de l'Économie du Québec.

In addition, the substantial increase in the spread between the yield on Québec and federal government securities, observed starting in the summer of 2008 during the financial crisis, has narrowed considerably since then. However, the level of the spread has not returned to the levels observed prior to 2008. The same situation has also been observed in the case of the other provinces.

CHART D.11

Yield spread on long-term (10-year) securities
(in percentage points)



Source: PC-Bond.

1.6 Borrowings contracted

TABLE D.10

Québec government
Summary of long-term borrowings contracted in 2013-2014[1]

Currency	$ million	%
CANADIAN DOLLAR		
Public issues	7 052	59.1
Private borrowings	2 410	20.2
Savings products	323	2.7
Business Assistance – Immigrant Investor Program	709	5.9
Subtotal	**10 494**	**87.9**
OTHER CURRENCY		
Euro	1 446	12.1
Subtotal	**1 446**	**12.1**
TOTAL	**11 940**	**100.0**

Note: Borrowings completed as at November 22, 2013.
(1) The amounts include the borrowings of the general fund, borrowings for the Financing Fund and borrowings of Financement-Québec.

TABLE D.11

Québec government
Borrowings contracted in 2013-2014 for the general fund and the Financing Fund

Amount received in Canadian dollars[1]	Face value in foreign currencies	Interest rate[2]	Date of issue	Date of maturity	Price to investor	Yield to investor[3]
(millions)		(%)			($)	(%)
561	—	4.50	April 19	2017-12-01	112.199	1.739
112[4]	—	Variable[5]	April 23	2016-10-23	100.000	Variable
75[4]	—	Variable[5]	April 23	2016-10-23	100.000	Variable
75[4]	—	Variable[5]	April 23	2016-10-23	100.000	Variable
250[4]	—	Variable[5]	April 23	2016-10-23	100.000	Variable
125[4]	—	Variable[5]	April 23	2016-10-23	100.000	Variable
200[4]	—	Variable[5]	April 23	2016-10-23	100.000	Variable
215[4]	—	Variable[5]	April 23	2016-10-23	100.000	Variable
83[4]	—	Variable[5]	April 26	2016-10-23	100.000	Variable
150[4]	—	Variable[5]	April 26	2016-10-23	100.000	Variable
25[4]	—	Variable[5]	April 26	2016-10-23	100.000	Variable
50[4]	—	Variable[5]	April 26	2016-10-23	100.000	Variable
50[4]	—	Variable[5]	April 26	2016-10-23	100.000	Variable
492	—	3.50	April 30	2045-12-01	98.353	3.586
497	—	3.50	May 3	2045-12-01	99.420	3.530
512	—	3.00	May 7	2023-09-01	102.466	2.724
506	—	3.00	May 21	2023-09-01	101.121	2.873
499	—	3.00	June 3	2023-09-01	99.892	3.012
481	—	3.50	June 7	2045-12-01	96.109	3.707
88[4]	€65	2.64[6]	June 17	2033-06-17	100.000	2.644[7]
556	—	4.50	June 17	2018-12-01	111.203	2.303
607	—	5.00	June 19	2041-12-01	121.390	3.768
494	—	3.00	June 21	2023-09-01	98.844	3.133
460	—	3.50	July 5	2045-12-01	91.984	3.940
1 358	€1 000	2.25[6]	July 17	2023-07-17	99.514	2.305[7]
480	—	3.00	August 12	2023-09-01	96.071	3.466
436	—	3.50	September 4	2045-12-01	87.245	4.228
471	—	3.00	September 25	2023-09-01	94.128	3.712
323[8]	—	Various	Various	Various	Various	Various
709[9]	—	Zero coupon	Various	Various	Various	Various
10 940						

Note: Borrowings completed as at November 22, 2013.

(1) The Canadian equivalent of the value of borrowings in foreign currencies on the date of borrowing is indicated.
(2) Interest payable semi-annually except if another frequency is indicated in a note.
(3) Yield to investor is established on the basis of interest payable semi-annually except if another frequency is indicated in a note.
(4) Private borrowings.
(5) Interest payable quarterly.
(6) Interest payable annually.
(7) Yield to investor is established on the basis of interest payable annually.
(8) Savings products issued by Épargne Placements Québec.
(9) Business Assistance – Immigrant Investor Program.

TABLE D.12

Québec government
Borrowings contracted in 2013-2014 by Financement-Québec

Amount received in Canadian dollars[1]	Face value in foreign currencies	Interest rate[2]	Date of issue	Date of maturity	Price to investor	Yield to investor[3]
(millions)		(%)			($)	(%)
423[4]	—	Variable[5]	October 29	2019-05-29	100.00	Variable
65[4]	—	Variable[5]	October 29	2019-05-29	100.00	Variable
100[4]	—	Variable[5]	October 29	2019-05-29	100.00	Variable
132[4]	—	Variable[5]	October 29	2019-05-29	100.00	Variable
25[4]	—	Variable[5]	October 29	2019-05-29	100.00	Variable
10[4]	—	Variable[5]	October 29	2019-05-29	100.00	Variable
50[4]	—	Variable[5]	October 29	2019-05-29	100.00	Variable
150[4]	—	Variable[5]	October 29	2019-05-29	100.00	Variable
45[4]	—	Variable[5]	October 29	2019-05-29	100.00	Variable
1 000						

Note: Borrowings completed as at November 22, 2013.
(1) The Canadian equivalent of the value of borrowings in foreign currencies on the date of borrowing is indicated.
(2) Interest payable semi-annually except if another frequency is indicated in a note.
(3) Yield to investor is established on the basis of interest payable semi-annually.
(4) Private borrowings.
(5) Interest payable quarterly.

TABLE D.13

Borrowings contracted by Hydro-Québec in 2013

Amount received in Canadian dollars[1]	Face value in foreign currency	Interest rate[2]	Date of issue	Date of maturity	Price to investor	Yield to investor[3]
(millions)		(%)			($)	(%)
8	—	Zero coupon	April 25	2022-04-15	77.165	2.929
601	—	5.00	July 19	2050-02-15	120.133	3.954
355	—	Variable	September 3	2018-09-03	100.000	Variable
250	—	Variable	September 3	2018-09-03	100.000	Variable
125	—	Variable	September 3	2018-09-03	100.000	Variable
100	—	Variable	September 3	2018-09-03	100.000	Variable
125	—	Variable	September 3	2018-09-03	100.000	Variable
45	—	Variable	September 3	2018-09-03	100.000	Variable
582	—	5.00	October 31	2050-02-15	116.386	4.125
2 191						

Note: Borrowings contracted from January 1 to November 22, 2013.
(1) The Canadian equivalent of the value of borrowings in foreign currencies on the date of borrowing is indicated.
(2) Interest payable semi-annually except if another frequency is indicated in a note.
(3) Yield to investor is established on the basis of interest payable semi-annually.

1.7 Debt management

The government's debt management strategy aims to minimize the cost of the debt while limiting the risks related to fluctuations in foreign exchange and interest rates.

The government uses a range of financial instruments, particularly interest rate and currency swap agreements, to achieve desired debt proportions by currency and interest rate.

❑ Structure of the debt by currency

As at March 31, 2013, the proportion of the government's gross debt in Canadian dollars, after taking into account interest rate and currency swap agreements, was 100.0%. This proportion was 99.8% as at March 31, 2012.

❑ Structure of the debt by interest rate

The government keeps part of its debt at floating rates and part at fixed rates.

After interest rate and currency swap agreements are taken into account, the proportion of the gross debt at floating rates was 12.8% as at March 31, 2013. This proportion was 12.0% as at March 31, 2012.

This slight increase is attributable to higher repayments of borrowings in 2013-2014 than in 2012-2013. The floating rate debt includes borrowings at fixed rates that mature in one year or less.

APPENDIX 2: INFORMATION ON THE RETIREMENT PLANS AND ON FUNDS DEPOSITED BY THE MINISTÈRE DES FINANCES ET DE L'ÉCONOMIE WITH THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

2.1 Retirement plans

The Québec government participates financially in the retirement plans of its employees. These plans had 577 875 active participants and 326 755 beneficiaries as at December 31, 2012.

TABLE D.14

Retirement plans of public and parapublic sector employees as at December 31, 2012

	Active participants	Beneficiaries
Government and Public Employees Retirement Plan (RREGOP)	530 000	223 702
Pension Plan of Management Personnel (PPMP) and Retirement Plan for Senior Officials (RPSO)	28 850	26 376
Other plans:		
— Teachers Pension Plan (TPP)[1] and Pension Plan of Certain Teachers (PPCT)[1]	97	45 143
— Civil Service Superannuation Plan (CSSP)[1]	35	20 526
— Superannuation Plan of Members of the Sûreté du Québec (SPMSQ)	5 850	4 901
— Pension Plan of Peace Officers in Correctional Services (PPPOCS)	3 600	1 689
— Pension Plan of the Judges of the Court of Québec and of Certain Municipal Courts (PPJCQM)	273	357
— Pension Plan for Federal Employees Transferred to Employment with the Gouvernement du Québec (PPFEQ)[2]	200	149
— Pension Plan of the Members of the National Assembly (PPMNA)	120	411
— Pension Plan of the Université du Québec (PPUQ)	8 850	3 501
Total for other plans	19 025	76 677
TOTAL	**577 875**	**326 755**

(1) These plans have not accepted any new participants since July 1, 1973.
(2) This plan has not accepted any new participants since it came into effect on January 1, 1992.
Source: 2012-2013 Public Accounts.

❑ Summary description of the retirement plans

The retirement plans of public and parapublic sector employees are defined benefit retirement plans. Benefits are calculated on the basis of participants' average income for the best paid years (generally five) and their number of years of service. The pension usually represents 2% of an employee's average income per year of service. Benefits are partially indexed to inflation.

RREGOP and PPMP, which account for nearly 97% of active participants, are cost-sharing plans: the government is responsible for paying 50% of the benefits, and the participants are responsible for paying the other 50%.[1]

Most of the other retirement plans are cost-balance plans. The government covers the cost of these plans, net of contributions paid by participants.

TABLE D.15

Change in the employee contribution rate of certain retirement plans
(per cent)

	RREGOP[1]	PPMP[2]	SPMSQ[3]	PPPOCS[4]
2004	5.35	4.50	8 / 6.2 / 8	4.0
2005	7.06	7.78	8 / 6.2 / 8	4.0
2006	7.06	7.78	8 / 6.2 / 8	4.0
2007	7.06	7.78	8 / 6.2 / 8	4.0
2008	8.19	10.54	8 / 6.2 / 8	4.0
2009	8.19	10.54	8 / 6.2 / 8	4.0
2010	8.19	10.54	8 / 6.2 / 8	4.0
2011	8.69	11.54	8 / 6.2 / 8	4.0
2012	8.94	12.30	8 / 6.2 / 8	4.0
2013	9.18	12.30	8 / 6.2 / 8	6.5

(1) Rate applicable on the excess of 35% of maximum pensionable earnings (MPE), which is determined by the Régie des rentes du Québec (RRQ). For 2012, the rate applies to the excess of 33% of the MPE. For 2013, the rate applies to the excess of 31% of the MPE. In 2013, the MPE is $51 100.
(2) Rate applicable to the excess of 35% of the MPE.
(3) Rate applicable up to the annual basic exemption of the RRQ ($3 500) / rate applicable to the excess up to the amount of the MPE / rate applicable to the excess of the MPE.
(4) Rate applicable to the excess of 25% of the employee's salary or of the MPE if it is lower.

The Commission administrative des régimes de retraite et d'assurances (CARRA) is responsible for administering the retirement plans.[2]

1 This cost-sharing formula has been in effect since July 1, 1982. Previously, the government was responsible for payment of 7/12 of the benefits (58.3%).

2 Except for the Pension Plan of the Université du Québec (PPUQ).

❑ Recent changes

To retain qualified workers and delay their retirement, the government has modified RREGOP and PPMP to enable participants to accumulate up to 38 years of service.[3] This change, which was agreed upon during the latest renewal of the collective agreements with government employees, is aimed at ensuring that employees nearing the end of their career stay longer in the labour market, thus facilitating the transfer of expertise.

Bill 58, *An Act to amend the Act respecting the Pension Plan of Management Personnel and other legislative provisions*, was passed by the National Assembly on May 2, 2012. It is the product of consultations with participant representatives and includes several amendments that will foster the financial health of the PPMP. In particular, the pension eligibility criteria have been tightened. Since January 1, 2013, new participants must complete an additional five-year period of membership in the plan for their retirement benefit to be calculated in accordance with the provisions of the PPMP. In addition, the reduction of the benefit for early retirement has been increased.

2.1.1 Retirement plans liability

In its financial statements, the government discloses the present value of the retirement benefits it will pay to its employees, taking into account the conditions governing their plans as well as their years of service. This value is called the retirement plans liability. It does not take into account the sums accumulated to pay retirement benefits, particularly the Retirement Plans Sinking Fund (RPSF), which will be discussed later on.

The actuarial valuations of the liability of the various retirement plans are carried out by CARRA,[4] following the rules of the Canadian Institute of Actuaries (CIA) and the Canadian Institute of Chartered Accountants (CICA) for the public sector.

As at March 31, 2013, the liability for the retirement plans of public and parapublic sector employees amounted to $76 703 million (net of the plans' assets). This amount is recognized in the government's gross debt.

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3 This measure is being implemented gradually until January 1, 2014.

4 Except in the case of the PPUQ, whose liability valuation is performed by a private-sector actuarial firm.

TABLE D.16

Retirement plans liability
(millions of dollars)

	March 31, 2013
Government and Public Employees Retirement Plan (RREGOP)	46 344
Pension Plan of Management Personnel (PPMP) and Retirement Plan for Senior Officials (RPSO)	10 706
Other plans:	
– Teachers Pension Plan (TPP) and Pension Plan of Certain Teachers (PPCT)	11 546
– Civil Service Superannuation Plan (CSSP)	3 848
– Superannuation Plan of Members of the Sûreté du Québec (SPMSQ)	3 681
– Pension Plan of the Université du Québec (PPUQ)	2 967
– Pension Plan of Peace Officers in Correctional Services (PPPOCS)	842
– Pension Plan of the Judges of the Court of Québec and of Certain Municipal Courts (PPJCQM)	538
– Pension Plan of the Members of the National Assembly (PPMNA)	186
– Pension Plan for Federal Employees Transferred to Employment with the Gouvernement du Québec (PPFEQ)	133
– Plan assets[1]	–4 088
Total for other plans	19 653
RETIREMENT PLANS LIABILITY	**76 703**

(1) Plans' assets, PPFEQ, SPMSQ and PPUQ in particular.

❑ Annual retirement plans expenditure

Every year, the government also records its expenditure as an employer with regard to the retirement plans. This expenditure comprises two components:

— the net cost of vested benefits, that is, the present value of retirement benefits that employees have accumulated for work performed during the year, net of contributions paid, i.e. $1 900 million in 2012-2013;

— the amortization of revisions to the government's actuarial obligations arising from previous updates of actuarial valuations, for a cost of $619 million in 2012-2013.

In 2012-2013, government spending in respect of the retirement plans amounted to $2 519 million.

TABLE D.17

Spending in respect of the retirement plans
(millions of dollars)

	2012-2013
Net cost of vested benefits	1 900
Amortization of adjustments arising from actuarial valuations[5]	619
SPENDING IN RESPECT OF THE RETIREMENT PLANS	**2 519**

5 Including the impact of amendments to the *Act respecting the Pension Plan of Management Personnel and other legislative provisions* (S.Q., 2012, chapter 6) that changed the plan qualification period for new participants after December 31, 2012, increasing it from 24 to 84 months, as well as certain provisions relating to retirement eligibility criteria, return to work and the age limit for contributing to the plan.

2.1.2 Retirement Plans Sinking Fund

The Retirement Plans Sinking Fund (RPSF) is an asset that was created in 1993 for the purpose of paying the retirement benefits of public and parapublic sector employees.

As at March 31, 2013, the book value of the RPSF stood at $48 344 million.

TABLE D.18

Change in the Retirement Plans Sinking Fund (RPSF)
(millions of dollars)

	Book value, beginning of year	Deposits	Investment income imputed	Book value, end of year
1993-1994	—	850	4	854
1994-1995	854	—	–5	849
1995-1996	849	—	74	923
1996-1997	923	—	91	1 014
1997-1998	1 095 (1)	—	84	1 179
1998-1999	1 179	944	86	2 209
1999-2000	2 209	2 612	219	5 040
2000-2001	5 040	1 607	412	7 059
2001-2002	7 059	2 535	605	10 199
2002-2003	10 199	900	741	11 840
2003-2004	11 840	1 502	862	14 204
2004-2005	14 204	3 202	927	18 333
2005-2006	18 333	3 000	1 230	22 563
2006-2007	22 437 (1)	3 000	1 440	26 877
2007-2008	26 877	3 000	1 887	31 764
2008-2009	31 749 (2)	2 100	2 176	36 025
2009-2010	36 025	—	2 175	38 200
2010-2011	38 200	2 000	2 065	42 265
2011-2012	42 265	1 000	2 087	45 352
2012-2013	45 352	1 000	1 992	48 344

(1) These amounts take into account restatements arising from the government accounting reforms of 1997-1998 and 2006-2007.
(2) This amount takes into account an adjustment arising from consideration of the expected average remaining service life (EARSL) of participants in the PPMP.

The information on the RPSF shown in the preceding table is based on the government's accounting policies, which are in full compliance with generally accepted accounting principles (GAAP) for Canada's public sector.

The book value of the RPSF as at March 31, 2013 was higher than its market value. As a result of the accounting policies, the difference between these two items will be fully amortized in the coming years. In addition, the financial impact of gradually amortizing the difference is fully incorporated into the government's financial framework over the entire planning horizon. Subsection 2.4 describes these items in greater detail.

The government's accounting policies apply when the return on the RPSF is higher than anticipated as well as when it is lower. As shown by the following table, the book value of the RPSF has been lower than its market value 8 times in the past 19 years.

TABLE D.19

Book value and market value of the Retirement Plans Sinking Fund as at March 31
(millions of dollars)

	Book value	Market value	Difference
1994-1995	849	831	18
1995-1996	923	954	–31
1996-1997	1 014	1 095	–81
1997-1998	1 179	1 321	–142
1998-1999	2 209	2 356	–147
1999-2000	5 040	5 703	–663
2000-2001	7 059	7 052	7
2001-2002	10 199	9 522	677
2002-2003	11 840	9 240	2 600
2003-2004	14 204	12 886	1 318
2004-2005	18 333	17 362	971
2005-2006	22 563	23 042	–479
2006-2007	26 877	28 859	–1 982
2007-2008	31 764	32 024	–260
2008-2009	36 025	25 535	10 490
2009-2010	38 200	29 559	8 641
2010-2011	42 265	35 427	6 838
2011-2012	45 352	38 222	7 130
2012-2013	48 344	42 562	5 782

❑ Amounts deposited in the RPSF have no impact on the gross debt

The government issues bonds on financial markets in order to make deposits in the RPSF. Nevertheless, the amounts deposited in the RPSF do not affect the government's gross debt.

Even though the amount of borrowings contracted to make deposits increases the direct debt, these deposits in turn reduce the net retirement plans liability by the same amount. Therefore, the net impact on the gross debt is nil.

TABLE D.20

Illustration of the impact on the government's gross debt of borrowing $1 billion on financial markets in order to deposit it in the RPSF[1]
(millions of dollars)

		Before deposit	After deposit	Change
(A)	Consolidated direct debt	168 616	169 616	1 000
	Retirement plans liability	76 703	76 703	—
	Less: Book value of the RPSF	–48 344	–49 344	–1 000
(B)	Net retirement plans liability	28 359	27 359	–1 000
(C)	Net employee future benefits liability	19	19	—
(D)	Less: Generations Fund	–5 238	–5 238	—
(E)	**GROSS DEBT (E = A + B + C + D)**	**191 756**	**191 756**	**—**

(1) Illustration based on results as at March 31, 2013.

❑ A decline in debt service

Deposits in the RPSF entail a reduction in the government's debt service. The rates of return on funds managed by the Caisse de dépôt et placement du Québec (the Caisse) are generally higher than interest rates on Québec government bonds issued to finance deposits to the RPSF. Therefore, the income of the RPSF, which is applied against the government's debt service, is usually higher than the additional interest charges that arise from new borrowings. This leads to a net decrease in the government's debt service.

Since the RPSF was created, the return obtained by the Caisse has been higher than the cost of new borrowings by the government 14 years out of 19.

TABLE D.21

Comparison of the RPSF's annual return and the Québec government's borrowing costs
(per cent)

	Return of the RPSF[1]	Cost of new borrowings[2]	Difference (percentage points)
1994-1995	–3.3[3]	5.9	–9.2
1995-1996	17.0	5.3	11.7
1996-1997	16.1	6.3	9.8
1997-1998	13.4	5.7	7.7
1998-1999	10.4	5.8	4.6
1999-2000	15.3	7.2	8.1
2000-2001	7.2	6.2	1.0
2001-2002	–4.7	5.5	–10.2
2002-2003	–8.5	4.7	–13.2
2003-2004	14.9	4.6	10.3
2004-2005	11.4	4.4	7.0
2005-2006	13.5	4.4	9.1
2006-2007	13.5	4.4	9.1
2007-2008	5.2	4.8	0.4
2008-2009	–25.6	4.2	–29.8
2009-2010	10.7	4.6	6.1
2010-2011	13.4	4.4	9.0
2011-2012	3.5	4.0	–0.5
2012-2013	9.4	3.6	5.8

(1) On a calendar year basis.
(2) On a fiscal year basis.
(3) From February to December 1994.

❑ A flexible deposit policy

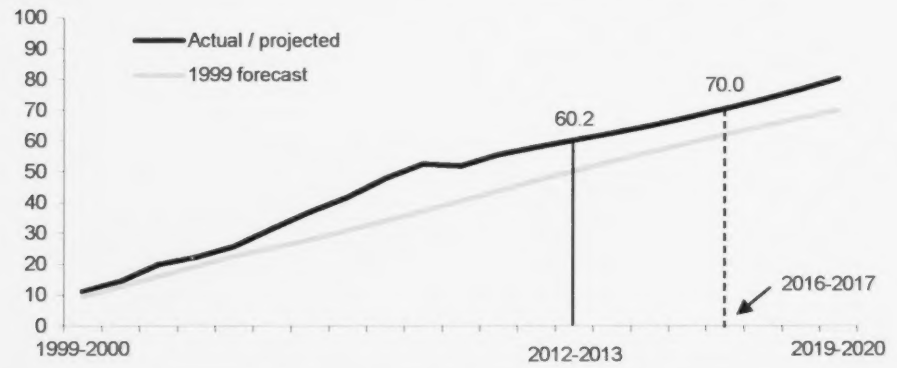
In December 1999, as part of an agreement concluded for the renewal of its employees' collective agreements, the government set the objective that the book value of the amounts accumulated in the RPSF would be equal, in 2020, to 70% of its actuarial obligations in regard to the retirement plans of public and parapublic sector employees.

However, the government has all the flexibility needed to apply this policy. Deposits in the RPSF are made only when market conditions are favourable, particularly with respect to interest rates and market receptiveness to bond issues. For example, the government did not make any deposits in 2009-2010, but deposited $2 billion in 2010-2011 and $1 billion in 2011-2012 and 2012-2013.

As at March 31, 2013, the RPSF's book value represented 60.2% of the government's actuarial obligations in regard to the retirement plans of public and parapublic sector employees. If deposits of $1 billion per year were made in the RPSF, the target of 70% would be attained three years earlier than anticipated, i.e. in 2016-2017.

CHART D.12

RPSF in proportion to the government's actuarial obligations regarding the retirement plans of public and parapublic sector employees
(per cent)



2.2 Generations Fund

The following table shows the book and market values of the Generations Fund since its creation.

TABLE D.22

Book value and market value of the Generations Fund as at March 31
(millions of dollars)

	Book value	Market value	Difference
2006-2007[1]	584	576	8
2007-2008	1 233	1 147	86
2008-2009	1 952	1 598	354
2009-2010	2 677	2 556	121
2010-2011	3 437	3 524	–87
2011-2012	4 277	4 375	–98
2012-2013	5 238	5 550	–312

(1) The first deposit in the Generations Fund was made on January 31, 2007.

Since the first deposit was made in the Generations Fund in January 2007, the return has been higher than or equivalent to the cost of new borrowings by the government five years out of six.

TABLE D.23

Comparison of the Generations Fund's annual return and the Québec government's borrowing costs
(per cent)

	Return of the Generations Fund[1]	Cost of new borrowings[2]	Difference (percentage points)
2007-2008	5.6[3]	4.8	0.8
2008-2009	–22.4	4.2	–26.6
2009-2010	11.3	4.6	6.7
2010-2011	12.3	4.4	7.9
2011-2012	4.0	4.0	—
2012-2013	8.4	3.6	4.8

(1) On a calendar year basis.
(2) On a fiscal year basis.
(3) Return realized from February to December 2007, since the first deposit was made in the Generations Fund on January 31, 2007.

2.3 Returns of the Caisse de dépôt et placement du Québec on funds deposited by the Ministère des Finances et de l'Économie

In 2012, the return on funds deposited by the Ministère des Finances et de l'Économie with the Caisse de dépôt et placement du Québec was 9.39% for the RPSF, 8.35% for the Generations Fund and 8.44% for the Accumulated Sick Leave Fund. The investment policy of these funds is presented in the box on page D.54.

TABLE D.24

Market value and return in 2012 of funds deposited with the Caisse de dépôt et placement du Québec by the Ministère des Finances et de l'Économie

	Return	Market value as at December 31, 2012
	(%)	($ million)
Retirement Plans Sinking Fund	9.39	40 722
Generations Fund	8.35	5 170
Accumulated Sick Leave Fund	8.44	751

2.3.1 Retirement Plans Sinking Fund

The RPSF posted a return of 9.39% in 2012. Its market value was $40 722 million as at December 31, 2012.

The assets of the RPSF are managed by the Caisse in accordance with an investment policy established by the Ministère des Finances et de l'Économie in cooperation with the Caisse. This investment policy is established taking several factors into account, including 10-year return, standard deviation and correlation forecasts for various categories of assets, opportunities for investing in these assets and recommendations of the Caisse.

The investment policy of the RPSF consists of 35.75% fixed-income securities (bonds, real estate debt, etc.), 15.50% inflation-sensitive investments (real estate, infrastructure, etc.), 45.25% equities and 3.50% other investments. These weightings are similar to those used on average by the Caisse's depositors as a whole.

TABLE D.25

Investment policy of the RPSF as at January 1, 2013
(per cent)

	Benchmark portfolio of the RPSF	Average benchmark portfolio of depositors as a whole[1]
Fixed-income securities	35.75	35.3
Inflation-sensitive investments	15.50	16.7
Equities	45.25	46.0
Other investments	3.50	2.0
TOTAL	**100.0**	**100.0**

(1) Data as at December 31, 2012. *Annual Report 2012* of the Caisse de dépôt et placement du Québec.

With its investment policy, the RPSF should generate an annual return of 6.45%. It is important to note that the RPSF's investment policy is based on a long-term horizon and constitutes the benchmark portfolio for the Caisse. However, through active management, the Caisse adjusts the allocation of the RPSF's assets, particularly to take fluctuations in the economic and financial situation into account. The RPSF's benchmark portfolio would have generated a return of 9.21% in 2012.

2.3.2 Generations Fund

The Generations Fund posted a return of 8.35% in 2012. Its market value was $5 170 million as at December 31, 2012.

The assets of the Generations Fund are managed by the Caisse in accordance with an investment policy established by the Ministère des Finances et de l'Économie in cooperation with the Caisse. This investment policy is established taking several factors into account, including 10-year return, standard deviation and correlation forecasts for various categories of assets, opportunities for investing in these assets and recommendations of the Caisse.

The investment policy of the Generations Fund consists of 41.0% fixed-income securities (bonds, real estate debt, etc.), 13.5% inflation-sensitive investments (real estate, infrastructure, etc.), 42.5% equities and 3.0% other investments.

TABLE D.26

Investment policy of the Generations Fund as at January 1, 2013
(per cent)

	Benchmark portfolio of the Generations Fund	Average benchmark portfolio of depositors as a whole[1]
Fixed-income securities	41.0	35.3
Inflation-sensitive investments	13.5	16.7
Equities	42.5	46.0
Other investments	3.0	2.0
TOTAL	**100.0**	**100.0**

(1) Data as at December 31, 2012. *Annual Report 2012* of the Caisse de dépôt et placement du Québec.

The investment policy of the Generations Fund aims to achieve a long-term return of 6.45%. It is important to note that the investment policy of the Generations Fund is based on a long-term horizon and is the benchmark portfolio for the Caisse. However, through active management, the Caisse adjusts the allocation of the Generations Fund's assets, particularly to take fluctuations in the economic and financial situation into account. The benchmark portfolio of the Generations Fund would have generated a return of 8.88% in 2012.

2.3.3 Accumulated Sick Leave Fund

The Accumulated Sick Leave Fund (ASLF) posted a return of 8.44% in 2012. Its market value was $751 million as at December 31, 2012.

The assets of the ASLF are managed by the Caisse in accordance with an investment policy established by the Ministère des Finances et de l'Économie in cooperation with the Caisse. Since January 1, 2009, the ASLF's investment policy has been identical to that of the RPSF, as the creation of the ASLF stems from a long-term commitment made by the government in regard to employee future benefits, which is similar to the commitment regarding the retirement plans. The ASLF's benchmark portfolio would have generated a return of 9.21% in 2012.

Comparison of investment policies

Investment policies as at January 1, 2013
(per cent)

Specialized portfolios	RPSF and ASLF	Generations Fund	Average benchmark portfolio of depositors as a whole[1]
Short-Term Investments	1.0	1.0	1.1
Bonds	28.75	34.0	26.1
Long-Term Bonds	0.0	0.0	2.3
Real Estate Debt	6.0	6.0	5.8
Total – Fixed Income	**35.75**	**41.0**	**35.3**
Real Return Bonds	0.0	0.0	0.8
Infrastructure	5.0	4.5	4.5
Real Estate	10.5	9.0	11.4
Total – Inflation-Sensitive Investments	**15.5**	**13.5**	**16.7**
Canadian Equity	12.75	10.0	12.4
Global Equity	7.0	8.0	7.2
Québec International	—	—	0.1
Global Quality Equity	1.0	1.0	—
US Equity	5.0	5.5	5.9
Foreign Equity (EAFE)	5.0	5.5	6.1
Emerging Markets Equity	4.5	4.5	4.4
Private Equity	10.0	8.0	9.9
Total – Equity	**45.25**	**42.5**	**46.0**
Hedge Funds	3.5	3.0	2.0
Asset Allocation	0.0	0.0	0.0
Total – Other Investments	**3.5**	**3.0**	**2.0**
TOTAL	**100.0**	**100.0**	**100.0**

RPSF: Retirement Plans Sinking Fund.
ASLF: Accumulated Sick Leave Fund.
EAFE: Europe, Australasia, Far East.
(1) Data as at December 31, 2012. *Annual Report 2012* of the Caisse de dépôt et placement du Québec.

2.4 Impact of the returns of the Retirement Plans Sinking Fund on debt service

The government records an interest charge on the retirement plans liability. This stems from the fact that historically, it decided to manage its contributions to the retirement plans of its employees internally rather than have an external fund manage them. This reduced borrowings on financial markets and growth in the direct debt. On the other hand, the commitments in respect of the retirement plans of government employees are shown as a liability and the government must record an interest charge calculated on the value of the actuarial obligations in respect of these plans. This charge is included in the government's debt service. However, the investment income of the RPSF must be subtracted from this amount.

TABLE D.27

Interests on retirement plans liability
(millions of dollars)

	2012-2013
Interests on actuarial obligations relating to retirement plans[1]	5 066
Less: Investment income of the RPSF	–1 992
INTERESTS ON RETIREMENT PLANS LIABILITY	**3 074**

(1) Net of the income of specific funds of the plans.

The returns realized by the Caisse on the RPSF are taken into account in the government's balance sheet and results by applying the accounting policy adopted in the wake of the December 2007 reform of government accounting in accordance with generally accepted accounting principles (GAAP).

> When determining a government's retirement benefit liability and expense, plan assets would be valued at market-related values. Under this method, plan assets are recorded at market value or they are adjusted to market value over a period not to exceed five years. Values adjusted to market closely approximate current economic value in a manner that can minimize short-term fluctuations. Market-related values would be used because they are objective and verifiable. Once a basis of valuation is chosen it would be applied consistently.[6]

6 CANADIAN INSTITUTE OF CHARTERED ACCOUNTANTS, *CICA Public Sector Accounting Handbook*, Section PS 3250, paragraph 035.

Under the accounting policy, the "adjusted market value" of the RPSF is adjusted every year based on the returns realized on the fund. If, for a given year, the realized return differs from the anticipated long-term return, the difference between the two is spread over five years. All other things being equal, this means that the adjusted market value and the market value will converge over a five-year period. It is important to note that this method is applied when returns are higher than expected as well as when they are lower.[7]

In addition, the differences between the realized and expected return, which are spread over five years, are taken into account in RPSF income by amortizing them over a period of about 13 years, that is, the expected average remaining service life (EARSL) of retirement plan participants.[8] This amortization mechanism and the period used are prescribed by GAAP.[9]

For example, the losses incurred by the Caisse in 2008-2009 reduced the income of the RPSF as of 2009-2010, while a rate of return higher than expected in 2012-2013 increases RPSF income as of 2013-2014.

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7 Before the accounting reform of 2007, the value of the RPSF was adjusted only once every three years, that is, when actuarial valuations were carried out. Since the reform, it is adjusted every year.

8 As with recognition of the retirement plans liability, the RPSF accounting method draws a distinction between the Pension Plan of Management Personnel (PPMP) and the other plans. The EARSL under the PPMP is 9 years compared with 14 years under the other plans.

9 "...actuarial gains and losses should be amortized to the liability or asset and the related expense in a systematic and rational manner over the expected average remaining service life of the related employee group." CANADIAN INSTITUTE OF CHARTERED ACCOUNTANTS, *CICA Public Sector Accounting Handbook*, Section PS 3250, paragraph .062. For the purposes of retirement assets, the CICA defines actuarial gains (losses) as changes in the value of plan assets that are caused notably by variances between actual results and projected results.

TABLE D.28

Impact of the returns of the Caisse de dépôt et placement du Québec on debt service[1]
(millions of dollars)

	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015
Before 2008-2009	–48	–78	–57	11	10	16
From 2008-2009	307	629	972	1 337	1 726	1 726
From 2009-2010		–65	–134	–207	–285	–369
From 2010-2011			–53	–110	–171	–236
From 2011-2012				15	30	47
From 2012-2013					–24	–49
IMPACT ON DEBT SERVICE	**259**	**486**	**728**	**1 046**	**1 286**	**1 135**

Note: A positive entry indicates an increase in debt service and a negative entry, a decrease.
(1) The amounts represent the impact on RPSF income, and therefore on debt service, of returns of the Caisse that are lower or higher than the projected rate for that period and that are amortized.

APPENDIX 3: INFORMATION RELATING TO CREDIT RATINGS

3.1 The Québec government's credit ratings

A borrower's credit rating measures its capacity to pay the interest on its debt and repay the principal at maturity. To establish the credit rating of a borrower like the Québec government, credit rating agencies analyze a series of economic, fiscal and financial factors. Among the main factors are the size, structure and vitality of the economy, the situation on the labour market, fiscal competitiveness, public finance situation and indebtedness.

To express the quality of a borrower's credit, credit rating agencies use rating scales, namely, a scale for long-term debt and a scale for short-term debt.

The following table shows the rating scales used by agencies for long-term debt. The current credit ratings for Québec are indicated in bold.

TABLE D.29

Credit rating scales for long-term debt

Definition	Moody's	Standard & Poor's	DBRS	Fitch	Japan Credit Rating Agency
Extremely strong capacity to pay interest and repay principal.	Aaa	AAA	AAA	AAA	AAA
Very strong capacity to pay interest and repay principal.	Aa1	AA+	AA (high)	AA+	**AA+**
	Aa2	AA	AA	AA	AA
	Aa3	AA–	AA (low)	**AA–**	AA–
Strong capacity to pay interest and repay principal, despite greater sensitivity to economic conditions than levels AAA and AA.	A1	**A+**	**A (high)**	A+	A+
	A2	A	A	A	A
	A3	A–	A (low)	A–	A–
Adequate capacity to pay interest and repay principal. Difficult economic conditions may reduce this capacity.	Baa1	BBB+	BBB (high)	BBB+	BBB+
	Baa2	BBB	BBB	BBB	BBB
	Baa3	BBB–	BBB (low)	BBB–	BBB–
Uncertain capacity to pay interest and repay principal, particularly under difficult economic conditions.	Ba1	BB+	BB (high)	BB+	BB+
	Ba2	BB	BB	BB	BB
	Ba3	BB–	BB (low)	BB–	BB–
Very uncertain capacity to pay interest and repay principal, particularly under difficult economic conditions.	B1	B+	B (high)	B+	B+
	B2	B	B	B	B
	B3	B–	B (low)	B–	B–

Agencies add an "outlook" to the rating that indicates the trend the credit rating may follow in the future. The outlook may be positive, stable or negative. In the case of Québec, all of the agencies assign a "stable" outlook to its credit rating.

TABLE D.30

The Québec government's current credit ratings

Agency	Rating	Outlook
Moody's	Aa2	Stable
Standard & Poor's (S&P)	A+	Stable
DBRS	A (high)	Stable
Fitch	AA–	Stable
Japan Credit Rating Agency (JCR)	AA+	Stable

The following table shows the rating scales used by agencies for short-term debt. The current credit ratings for Québec are indicated in bold.

TABLE D.31

Credit rating scales for short-term debt[1]

Definition	Moody's	Standard & Poor's	DBRS	Fitch
Very strong capacity to pay interest and repay principal over the short term.	**P–1**	**A–1+** A–1	R–1 (High) **R–1 (Middle)** R–1 (Low)	**F1+** F1
Very adequate capacity to pay interest and repay principal over the short term, despite greater sensitivity to economic conditions than the upper level.	P–2	A–2	R–2 (High)	F2
Adequate capacity to pay interest and repay principal over the short term. Difficult economic conditions may reduce this capacity.	P–3	A–3	R–2 (Middle) R–2 (Low) R–3	F3
Uncertain capacity to pay interest and repay principal over the short term. Securities in this category are considered speculative securities.	Not Prime[2]	B–1 B–2 B–3 C	R–4 R–5	B C
Incapacity to pay interest and repay principal over the short term. Securities in this category are considered default securities.	Not Prime[2]	D	D	D

(1) Not applicable in the case of JCR.
(2) Moody's uses the "Not Prime" category for all securities not included in the upper categories.

❑ Change in Québec's credit ratings

The following charts show the change in the Québec government's credit ratings. The credit ratings for 2013 are those in effect as at November 22, 2013.

CHART D.13

Credit rating assigned to Québec by Moody's

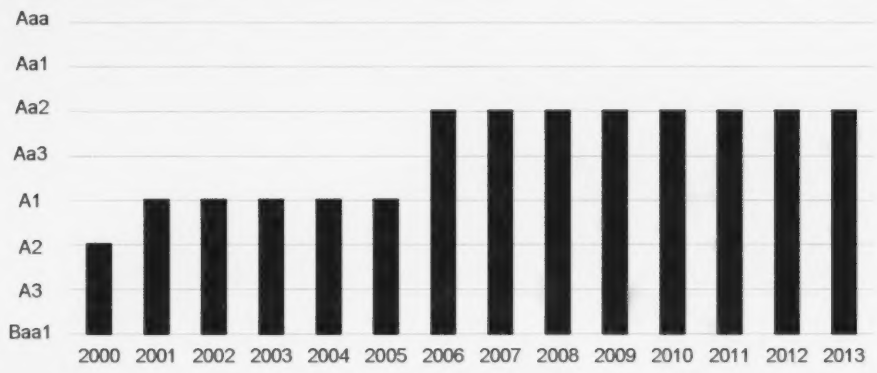


CHART D.14

Credit rating assigned to Québec by Standard & Poor's

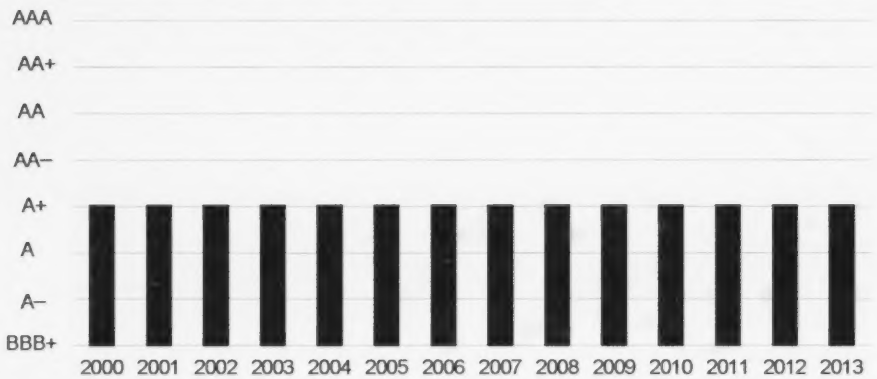
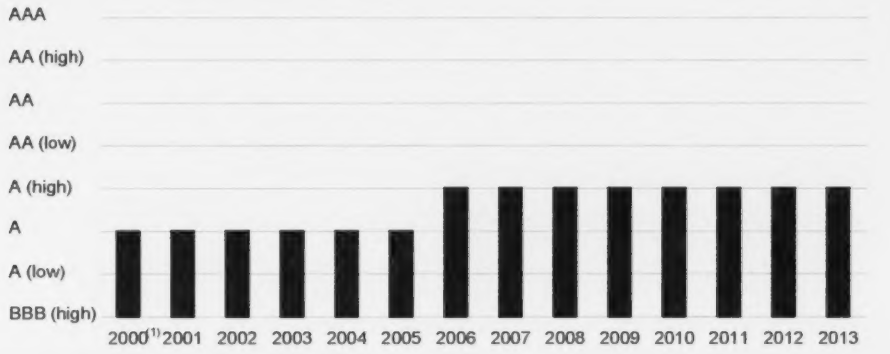


CHART D.15

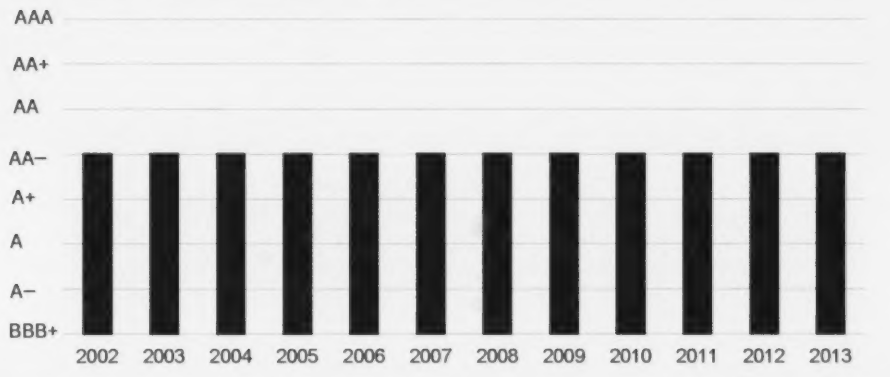
Credit rating assigned to Québec by DBRS



(1) The credit rating was raised from A (low) to A on June 14, 2000.

CHART D.16

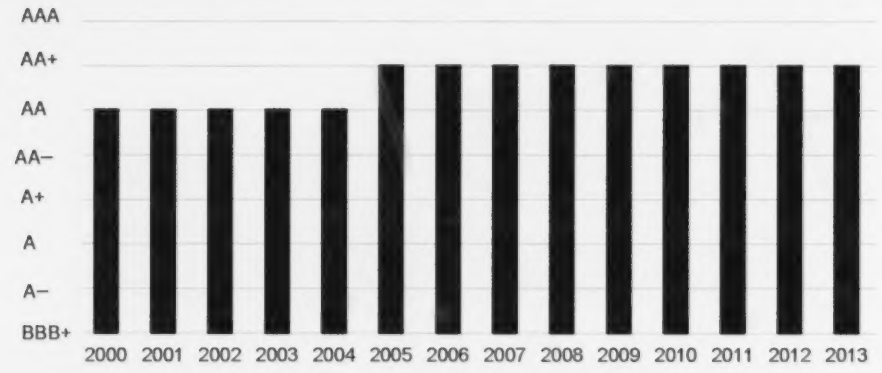
Credit rating assigned to Québec by Fitch



Note: Fitch has assigned Québec a credit rating since 2002.

CHART D.17

Credit rating assigned to Québec by JCR

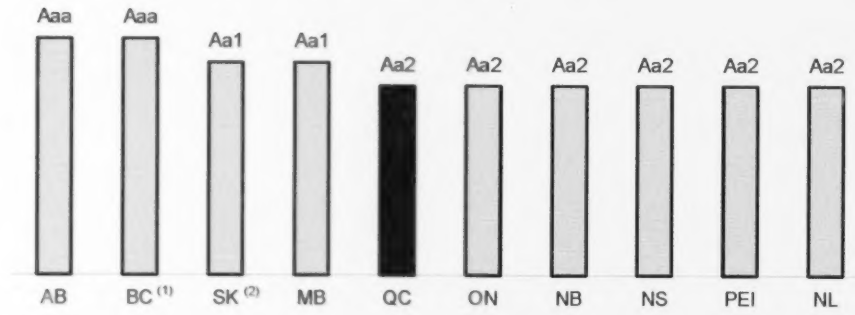


3.2 Comparison of the credit ratings of Canadian provinces

The following charts show the credit ratings of Canadian provinces as at November 22, 2013. No chart is given for JCR since Québec is the only province that receives a credit rating from that agency.

CHART D.18

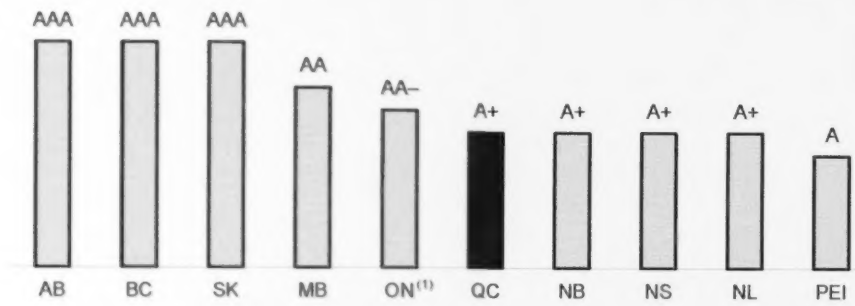
Credit ratings of Canadian provinces – Moody's



(1) Negative outlook.
(2) Positive outlook.

CHART D.19

Credit ratings of Canadian provinces – Standard & Poor's



(1) Negative outlook.

CHART D.20

Credit ratings of Canadian provinces – DBRS

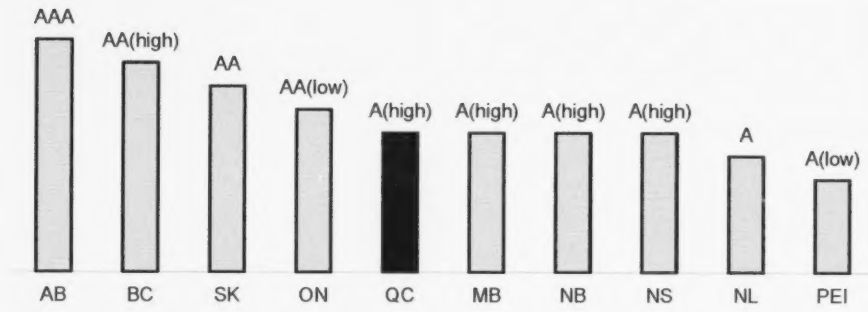
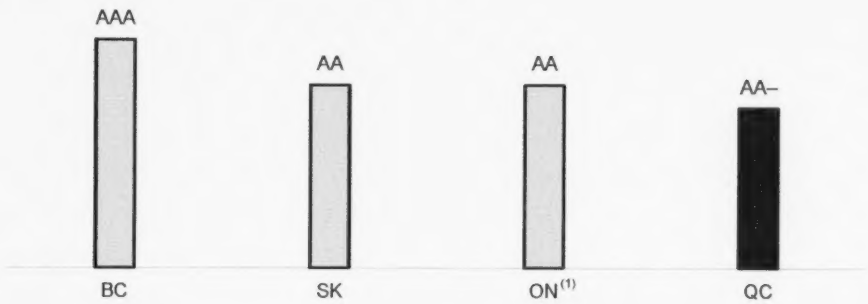


CHART D.21

Credit ratings of Canadian provinces – Fitch



Note: British Columbia, Saskatchewan, Ontario and Québec are the only provinces that receive credit ratings from this agency.
(1) Negative outlook.

Section E

THE GOVERNMENT'S ECONOMIC PRIORITIES

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3. Solidarity: an asset that enriches québec **E.33**

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INTRODUCTION

The government's action rests on four pillars: integrity, prosperity, identity and solidarity.

In recent weeks, the government has taken major steps regarding two of its action priorities, prosperity and solidarity.

❑ Prosperity

With the Economic Policy – Putting Jobs First, released last October 7, the government has laid out concrete and necessary actions for a prosperous Québec that creates jobs and sustainable wealth. Since then, many of these actions have been implemented and others will be shortly.

Northern development is a strategic element of the Economic Policy – Putting Jobs First. The Fonds du développement nordique is a strategic tool to foster the economic and social development of Northern Québec, for the benefit of all.

❑ Solidarity

Solidarity is also an important pillar for the government. In this regard, the government's objective is to build a fairer Québec where everyone has access to the essentials.

Accordingly, last October 30, the government released an orientation and initiative paper, *La solidarité : une richesse pour le Québec*. At the same time, numerous structuring measures stemming from this wide-ranging plan were announced.

❑ Integrity and identity

Integrity and identity, it should be noted, are also central priorities of the government. These pillars guide the government's actions and are reflected in the initiatives that have been put in place in recent weeks.

1. ECONOMIC POLICY – PUTTING JOBS FIRST

With the Economic Policy – Putting Jobs First, released last October 7, the government is accelerating its action to implement, in Québec, favourable conditions for job creation and economic growth, in keeping with the commitments in the 2013-2014 Budget.

For Québec's economy to move forward on solid foundations, steps must be taken to:

— invest more in research and innovation;

— make businesses more efficient;

— boost exports;

— capitalize on Québec's resources and assets.

In addition, the ongoing uncertainty surrounding the global economic recovery demands strong and effective measures to ensure that Québec's economy is not adversely affected by this situation and to avoid jeopardizing the results of the government's efforts over the past year and more.

In this regard, the Economic Policy – Putting Jobs First is an ambitious policy backed by substantial resources. It lays out a package of promising fiscal and budgetary measures representing investments of almost $2 billion from now to 2016-2017.

The November 2013 Update on Québec's Economic and Financial Situation is an opportunity to restate the government's vision and report on the implementation of the Economic Policy – Putting Jobs First, its financing and the expected results.

1.1 The government's vision

In the 2013-2014 Budget of November 2012, the government set out the vision that will guide how it acts on the economy.

This vision is based on a conviction that investment is necessary to maintain existing jobs and create new ones.

— Private investment is the key to future growth.

— Private investment ensures a rising standard of living:

  — by increasing productivity;

  — by bolstering business competitiveness.

Private investment paves the way for economic growth, an improving trade balance and the dissemination of innovations.

Measures that are producing results

Starting with 2013-2014 Budget, the government has developed and implemented numerous measures, strategies and initiatives to create a favourable environment for growth. These efforts are producing results.

Fiscal measures

Two fiscal measures designed to foster investment were announced in Budget 2013-2014:

- the tax holiday for large investment projects;
- the extension of and improvement to the tax credit for investments.

Sectoral strategies and policies that support Québec's economic development

Many sectoral initiatives, policies and strategies have been rolled out since Budget 2013-2014:

- the Politique de souveraineté alimentaire and increased support for the new generation of farmers;
- implementation of the Plan de développement de l'industrie touristique with the deployment of the Programme d'appui au développement des attraits touristiques;
- the Stratégie d'intervention gouvernementale pour le développement de la région Gaspésie—Îles-de-la-Madeleine;
- the wood charter;
- the new policy direction for the development of Northern Québec;
- support for investments in the biopharmaceutical industry, including the new Fonds de partenariat pour un Québec innovant et en santé;

Measures that are producing results (continued)

- sectoral legislation to recognize, promote and develop the social economy;
- the follow-up to the report of the Task Force on Cultural Philanthropy;
- the extension of the refundable tax credit for the development of e-business;
- the allocation of 800 MW for new wind-power projects;
- the labour mobilization strategy Tous pour l'emploi : une impulsion nouvelle avec les partenaires, with funding in excess of $1 billion for 2013-2014.

These efforts are producing results

Over the past year, the government has been very active in regard to investment and job creation. Between September 1, 2012 and October 31, 2013, Investissement Québec has authorized more than 1 820 financial operations.

These operations, valued at $2.4 billion, support projects totalling almost $9 billion and help create or consolidate more than 26 000 jobs.

Thanks to these steps, many large private investment projects have since been announced, in particular:

- RER Hydro (investment of $130 million);
- Pratt & Whitney Canada (investment of $275 million);
- Warner Bros (investment of $63 million);
- Ubisoft (investment of $373 million);
- CSX Intermodal terminals (investment of $100 million);
- Ericsson Canada (investment of $1.3 billion);
- the arrival of AJW Technique and Lockheed Martin (investment of more than $60 million);
- participation of AstraZeneca and Pfizer Canada in the Institut NÉOMED (investment of $100 million);
- Indian Farmers Fertiliser Cooperative (IFFCO) (expected investment of $1.2 billion);
- Green Mountain Coffee Roasters (investment of $55 million).

1.2 The commitments made in the Economic Policy – Putting Jobs First

The Economic Policy – Putting Jobs First is based on an integrated approach to short- and long-term job and wealth creation by investing in research and innovation, by providing businesses with the means to perform better, in particular through support on export markets, and by focusing on transportation electrification.

It lays out a package of fiscal and budgetary measures representing, just on the government side, investments of almost $2 billion from now to 2016-2017.

Overall, this policy should help create more than 43 000 new jobs from now until 2017. These jobs will be over and above the jobs already forecast over the same period. In all, it is expected that 116 800 new jobs will be created over the next three years.

TABLE E.1

Economic Policy – Putting Jobs First – Investments by component[1]
(millions of dollars)

	2013-2014	2014-2015	2015-2016	2016-2017	Total
A knowledge-based society with a skilled workforce	–2	–170	–199	–210	**–581**
Successful businesses	–25	–170	–247	–267	**–709**
Direct action on export markets	—	–26	–28	–27	**–82**
Transportation electrification strategy	–20	–144	–171	–181	**–516**
Support for green renovation	–5	–97	–5	–5	**–112**
TOTAL	**–52**	**–607**	**–651**	**–690**	**–1 999**

Note: Totals may not match due to rounding.
(1) The use of surplus electricity and the acceleration of public investments do not require direct or additional financing by the government.

❑ Four key measures

To foster investment and job creation in the short term, the Economic Policy – Putting Jobs First includes four key measures. Accordingly, the government:

— is leveraging surplus electricity to attract investment and create jobs;

— is accelerating public investments to renovate schools and modernize community sports and recreation infrastructures;

— is continuing its investment in Northern infrastructures to prepare for the future;

— is implementing fiscal measures to stimulate investments by individuals and businesses.

❑ Four strategic policies and initiatives

To lay the foundations of solid and lasting growth, while improving the effectiveness of government action, the Economic Policy – Putting Jobs First simultaneously incorporates four strategic initiatives, namely:

— the National Research and Innovation Policy;

— Québec's Industrial Policy;

— the External Trade Development Plan;

— the Transportation Electrification Strategy.

❑ Targeted sectoral measures

To foster the development of specific sectors, the government has announced a number of sectoral initiatives, namely:

— implementing the orientations reached at the Rendez-vous national de la forêt québécoise held November 21 and 22, 2013;

— fostering the growth of tourism in Québec through five priority initiatives whose implementation will amount to total new investments in excess of $156 million (funding of $42.9 million over three years);

  — On October 17, 2013, the government announced the details of its tourism priorities.

— implementing a balanced and environmentally responsible approach to the oil sector.

❑ Specific and demanding targets

The government's actions taken as a whole will have measurable effects on Québec's economy. The government has set specific and demanding targets:

— allocate more than 3% of GDP to R&D investments;

— surpass the Canadian average for growth in labour productivity;

— surpass the Canadian average for investment by businesses in machinery and equipment per worker;

— ensure exports exceed 55% of GDP.

❑ Significant impacts expected in the short term on employment and economic activity

In view of the ongoing uncertainty over a solid recovery of the global economy and in order to meet the economic challenges facing Québec, implementation of the Economic Policy – Putting Jobs First allows rapid and immediate creation of jobs and lays the foundations for lasting economic growth for the benefit of all Quebecers in every region.

During the period 2013-2017, the Economic Policy – Putting Jobs First will result in the creation of just over 43 000 quality jobs.

These jobs will be over and above the jobs already forecast over the same period. In all, it is expected that 116 800 new jobs will be created over the next three years.

This policy will support or trigger investments of $7.6 billion from now until 2017.

From now to 2017, it will help provide a permanent boost to economic activity of $3.0 billion per year.

The Economic Policy - Putting Jobs First will also have impacts beyond 2017. Over the next 10 years, it will foster investment of $13.1 billion.

TABLE E.2

Summary of economic spinoffs

	By 2017
Total investment ($ million)	7 566
Permanent increase in employment (units)	43 050
Permanent increase in economic activity ($ million)	3 000
– As a percentage	0.8

1.3 Actions already taken

❑ Fiscal measures already in place that benefit businesses and individuals

As part of the Economic Policy – Putting Jobs First, the government has announced major fiscal measures designed to stimulate investment and employment. These measures have been in force since last October 7. These measures help to:

- support investment by individuals and create jobs through:
  - the introduction of a refundable tax credit for green renovation, ÉcoRénov, a 20% refundable tax credit for individuals;
  - the implementation of a new component of the Rénoclimat program[1];
- support business investment through:
  - the reduction of the investment threshold required to be entitled to the tax holiday for large investment projects (THI) from $300 million to $200 million;
  - improvements to the tax credit for investments:
    - raising the increased rates of the tax credit by 10 percentage points for manufacturing SMEs;
    - broadening of the tax credit for investments to certain expenditures relating to immovables for manufacturing SMEs in every region of Québec;
    - broadening of the tax credit for investments to production computer hardware for all businesses;
  - a 25% tax credit on expenditures to integrate information technology (IT) in manufacturing SMEs.

These measures will lead to the creation of 6 200 jobs by 2017. By the end of the current year and over the next three years, they will engender investments of over $1 billion.

[1] This program will receive an additional $15 million, bringing its total funding to $37 million over four years.

TABLE E.3

Cost of the fiscal measures and of the new component of the Rénoclimat program to stimulate investment by businesses and individuals
(millions of dollars)

Measures	2013-2014	2014-2015	2015-2016	2016-2017	Total
ÉcoRénov	–4.8	–91.7	—	—	**–96.5**
New Rénoclimat component	—	–5.0	–5.0	–5.0	**–15.0**
Reduction of the minimum investment threshold for the THI	—	—	–1.0	–1.0	**–2.0**
Improvements to the tax credit for investments	–6.7	–36.1	–68.7	–71.3	**–182.8**
New tax credit to encourage manufacturing SMEs to install IT	—	–3.8	–8.6	–9.6	**–22.0**
TOTAL	**–11.5**	**–136.6**	**–83.3**	**–86.9**	**–318.3**

❑ Acceleration of infrastructure projects

One component of the Economic Policy – Putting Jobs First consisted in accelerating public investments to renovate and modernize schools, community sports and recreation infrastructures as well as the facilities of the Société des établissements de plein air du Québec (Sépaq). The investments thus moved forward were already included in the 2013-2023 Québec Infrastructures Plan.

In the education sector, an action plan aims to resolve air quality problems in certain schools in Québec. This plan has three components:

— immediate action to deal with known problems with mould;

— extensive operation to detect potential air quality problems in schools;

— enhanced prevention measures in support of repair, improvement and refurbishment work.

The government has also announced investments in sports and recreation infrastructures to encourage people to become more physically active.

In the tourism sector, investments have been moved forward and this will allow, in particular, Sépaq to improve access to territories, continue bringing public service infrastructures up to standard and ensure the long-term viability of the built heritage.

The government authorizations required for all the planned investments in these sectors are in progress. Work should thus get underway in the coming weeks.

Follow-up to Rendez-vous national de la forêt québécoise, November 21 and 22, 2013

Further to the Economic Policy – Putting Jobs First in which the government announced $100 million in new funding for the forest sector, all wood sector players were invited to the Rendez-vous national de la forêt québécoise held November 21 and 22, 2013 in Saint-Félicien.

This event signified the government's determination to provide the forestry sector with a new start. This sector, which is central to economic activity in many regions of Québec, has experienced structural and cyclical difficulties in recent years. The government wishes to provide it with resources to match its ambitions.

To give practical effect to this commitment, a total of $675 million will be allocated to support the forestry sector over the next three years. This amount will be distributed over three themes that have been identified to meet the industry's needs.

First, **transforming the industry and developing future-oriented sectors**, which will require developing new markets, to stimulate innovation and modernizing the forestry industry so that it becomes more competitive.

- $428.4 million will be allocated to this theme.

Next, **adapting our silviculture to optimize the potential of our forests**, seeks in particular to draw up a plan on the use and development of the forest, to bolster the resource's value and facilitate access to it.

- $196.0 million is earmarked for this theme.

Lastly, **uniting our strengths to secure the future of the wood sector**, for which the government is proposing to complete the implementation of the new forestry regime, attract workers and restore the cachet of the forest and wood products by, in particular, emphasizing the wood charter.

- $50.4 million will be invested.

This innovative event, praised by all, has therefore resulted in concrete solutions to give new impetus to the wood sector and support its workers. In addition, three initiatives designed to deal with the sector's problems will be rolled out in the coming months.

❑ The four strategic initiatives and policies announced

The government has made public over the last few weeks the four strategic initiatives and policies at the core of the Economic Policy – Putting Jobs First, namely:

— Québec's Industrial Policy, unveiled on October 10, 2013 by the Minister for Industrial Policy and the Banque de développement économique du Québec, Élaine Zakaïb;

— the National Research and Innovation Policy, announced by the Minister of Higher Education, Research, Science and Technology, Pierre Duchesne, on October 16, 2013;

— the External Trade Development Plan, announced by the Minister of International Relations, La Francophonie and External Trade, Jean-François Lisée, on October 28, 2013;

— the Transportation Electrification Strategy, released on November 1, 2013 by the Premier of Québec, Pauline Marois.

Québec's Industrial Policy

Québec's Industrial Policy is designed to make Québec's manufacturing sector more competitive and achieve the targets of the Economic Policy – Putting Jobs First, particularly regarding productivity and employment. It has three priorities:

Priority 1 – Green, modernized businesses, contains measures to accelerate the mechanization, automation and robotization of production processes, incorporate information and communications technologies in businesses and promote green technology, in particular:

- improvement to the tax credit for investments for manufacturing SMEs and creation of a tax credit for manufacturing SMEs to use management software;
- ready and low-cost access, for SMEs, to consultants in the field of information and communications technology and advanced technology;
- launch of a new program, ÉcoPerformance, to help businesses reduce their greenhouse gas emissions;
- development of credible methods to certify green products in Québec, in addition to financial assistance for the acquisition of recognized certification.

Priority 2 – Emergence of new flagships, includes measures to increase the number of medium-size businesses able to act as major contract givers and identify supply chains in strategic and emerging sectors, in particular:

- regional business action plans offering a personalized approach to the most dynamic SMEs to accelerate their growth and measures to incorporate promising SMEs in strategic supply chains;
- better support for business start-ups throughout Québec with the creation of Capital Émergence and continued support for entrepreneurship;
- the reduction, from $300 million to $200 million, of the minimum investment threshold required to be entitled to the tax holiday for large investment projects in sectors in which Québec holds a strong position.

Priority 3 – Innovation: from concept to market, contains measures to support commercialization of innovative technologies and products of businesses at every stage, including:

- new mobilizing partnership projects between firms and researchers, to develop innovative technologies and products, including a mobilizing project in transportation electrification and phase 2 of the greener aircraft project;
- additional financial support for the marketing of innovative technologies and products, some of which could be tested by government departments and public bodies.

The National Research and Innovation Policy

The National Research and Innovation Policy is designed primarily to spread knowledge, facilitate the transition from knowledge to innovation and stimulate investment in research and innovation. It has five themes:

Theme 1 – Mobilize researchers, institutions and businesses for Québec's development, covers measures to mobilize research efforts, in particular in three major priority areas likely to bring practical solutions to the significant challenges facing Québec: demographic change, sustainable development and Québec's identity.

- For instance, the government will provide financial support for major intersectoral research projects and will provide support for the formation of groups of players involved in innovation projects.

Theme 2 – Train new researchers: transmit the passion for science and innovation, includes measures to provide quality training for new candidates in science, technology, engineering and mathematics, and ensure that the population in general is well grounded in science and innovation.

- For example, the government will invest in scientific laboratories for public schools located in disadvantaged communities and will support the creation field practica for students.

Theme 3 – Aim for collaboration and excellence: universities and colleges, covers measures that will foster the pursuit of excellence in research and teaching, in particular:

- increase the budgets of the Fonds de recherche du Québec;
- increase in funding allocated to college centres for technology transfer (CCTT) and for the creation of three new centres in regions where service is not as extensive;
- additional support for initiatives involving international cooperation.

Theme 4 – Foster scientific entrepreneurship and develop industrial innovation, contains measures targeting strategic fields in which Québec should act to support and develop research and measures allowing businesses, SMEs in particular, to contribute more to research and innovation, including:

- improved support for technology business start-ups and financial and technical support for SMEs seeking to apply for their first patent;
- creation of the Réseau recherche innovation Québec to foster better cooperation among players operating in the research and innovation sector and greater service complementarity;
- improved support for various sectoral industrial research groups in particular to support projects nearer the commercialization stage.

Theme 5 – Government action, covers the resources that will be put to work for the Québec state, through its action, to become a genuine engine of research and innovation.

The External Trade Development Plan

The External Trade Development Plan seeks to revive Québec's exports through a package of measures structured around four themes.

Theme 1 – Simplify and facilitate access to services and markets, provides measures to facilitate access to services, cut red tape, improve coordination and complementarity among export stakeholders, and deepen political and institutional relations to support external trade in particular by supporting the negotiation of trade agreements for Québec's benefit, including:

- using government online services by facilitating search functions and developing transactional capability;
- consolidating teams in BRIC[1] markets and supporting action in Africa;
- setting up a standing committee to deal with obstacles Québec exporters encounter and ensure better circulation of information relating to trade agreements.

Theme 2 – Prepare businesses upstream from market development, includes measures to develop an integrated business intervention approach, foster the commercialization of innovative products, support skills development and recruitment of strategic workers and offer financial services adapted to the situation of exporting businesses, in particular:

- an offering of specialized services throughout the regions to structure procedures and support export perseverance;
- Export Québec's Programme Exportation, which includes:
  - program improvements including specific funding for the agri-food and forestry sectors;
  - support for young entrepreneurs targeting markets outside Québec.

Theme 3 – Support businesses abroad, consists of measures designed in particular to match global opportunities with Québec's offering and help high-potential businesses to incorporate global value-added chains, for example:

- individual support for high-potential businesses under the Approche stratégique d'intervention en entreprise;
- improving the service offering of Export Québec on a number of promising markets, in particular in Africa, and opening new Expansion Québec offices.

Theme 4 – Promoting Québec's strengths, brings together initiatives highlighting Québec's sectors of excellence abroad, promoting Québec's cultural and tourism offering and Québec's strengths in order to foster not just exports, but investment in Québec as well, for example:

- develop an economic promotion strategy for Québec, in particular in support of objectives related to the Transportation Electrification Strategy.

(1) Brazil, Russia, India and China.

The Transportation Electrification Strategy

The Transportation Electrification Strategy targets four objectives at the same time: it will help create jobs and wealth and position Québec as a world leader in a fast-developing field, while improving the environmental record and fostering energy independence. It has four areas of activity.

Area 1 – Quickly expand the role of electric transportation, contains substantial measures to radically change existing perceptions and behaviour regarding electric transportation, i.e.:

- offer of a maximum rebate of $8 000 for the purchase of an electric vehicle for the next three years, electrification of 525 taxis in Québec cities and roll out a plan for the deployment of 5 000 charging stations (including 3 500 at the workplace) throughout Québec;
- creation of a $115 million fund to further encourage the use of electric transportation;
- electrification of the Saint-Michel axis, extension of the blue metro line in Montréal and construction of a light rail system on the future Champlain Bridge linking Montréal to the South Shore.

Area 2 – Capitalize on Québec's electricity know-how, includes measures to mobilize and tap into the synergy of the creativity of universities and researchers, entrepreneurs and decision-makers to enable Québec to claim its rightful place in preparing tomorrow's transportation, in particular:

- creation of the Institut du transport électrique and bolstering of the electrical sector to develop solutions for tomorrow's transportation.

Area 3 – Build the future around a strong and productive network, involves the development of a promising new manufacturing activity exploiting certain high value-added niches, through a number of measures including:

- financing of business projects for the development of technologies and the marketing of innovative products;
- implementation of measures to accelerate the growth of promising businesses to foster modernization and develop exports.

Area 4 – Make the Québec state a model worth emulating, contains measures to bolster coherence and synergy among the various facets of government action and use the government's purchasing power to foster deployment of made-in-Québec transportation solutions, in particular:

- creation of a secretariat to coordinate all government actions. The secretariat will be involved in the gradual and compulsory electrification of the government fleet. This will be accompanied by the installation of 1 000 charging stations near government buildings;
- adjustment of the regulatory and legislative framework to facilitate use of electric vehicles and the development of electric public transit;
- mounting a promotion and awareness campaign in cooperation with interested partners;
- opening a dialogue with municipal bodies to support municipalities involved in efforts to electrify transportation.

1.4 Financial framework

The resources mobilized to implement the Economic Policy – Putting Jobs First are very substantial and are consistent with the expected results on employment and the economy. In terms of public investments alone, the Economic Policy – Putting Jobs First is accompanied by fiscal and budgetary measures reaching close to $2 billion by 2017.

■ Sources of funding

The initiatives announced in the Economic Policy – Putting Jobs First represent economic priorities that the government will put forward in the near future and over the coming years.

The measures will be partially funded, first of all, from revenue sources already included in the government's financial framework, in particular the Transportation Electrification Fund announced in the 2013-2014 budget as well as the revenue paid into the Green Fund.

In addition, close to $1.3 billion, i.e. $315 million in tax expenditures and $972 million funded from program spending growth objectives, is specified for the coming years in the government's financial framework, i.e.:

— $33 million in 2013-2014;

— $412 million in 2014-2015;

— $404 million in 2015-2016;

— $440 million in 2016-2017.

TABLE E.4

Economic Policy – Putting Jobs First – Sources of funding
(millions of dollars)

	2013-2014	2014-2015	2015-2016	2016-2017	Total
Investments					
A knowledge-based society with a skilled workforce	–2	–170	–199	–210	**–581**
Successful businesses	–25	–170	–247	–267	**–709**
Direct action on export markets		–26	–28	–27	**–82**
Transportation electrification strategy	–20	–144	–171	–181	**–516**
Support for green renovation	–5	–97	–5	–5	**–112**
Total – Investments	**–52**	**–607**	**–651**	**–690**	**–1 999**
Sources of funding					
Transportation Electrification Fund[1]	5	73	57	65	**200**
Green Fund	15	123	189	185	**512**
Program spending	21	276	322	354	**972**
Tax measures	12	136	82	86	**315**
Funding	**52**	**607**	**651**	**690**	**1 999**

Note: Totals may not match due to rounding.
(1) The Transportation Electrification Fund consists of an envelope of $200 million set aside from the Green Fund.

■ Net financial impact for the government

Because of the additional economic activity generated by the Economic Policy – Putting Jobs First, it is estimated that the $1.3 billion financial impact stemming from the new tax expenditures and program spending will be fully offset by additional tax revenues as of 2019-2020, i.e. over a period of seven years.

TABLE E.5

Net financial impact for the government of the Economic Policy – Putting Jobs First
(millions of dollars)

	2013-2014	2014-2015	2015-2016	2016-2017	Subtotal 2013-14 to 2016-17	Total 2013-14 to 2019-20
Additional tax expenditures and program spending	–33	–412	–404	–440	–1 288	–1 288
Additional tax revenue stemming from the rise in economic activity[1]	33	129	206	294	663	1 582
Net financial impact	**—**	**–283**	**–198**	**–146**	**–625**	**295**

Note: Totals may not match due to rounding.
(1) The additional tax revenue stemming from the Economic Policy – Putting Jobs First is included in the adjustments to budgetary revenue.

2. NORTHERN DEVELOPMENT

2.1 Potential to be developed

Northern Québec boasts a wealth of natural resources offering Québec the potential for major economic development.

The territory is home to a variety of resources including iron, gold, copper and rare earths that are prized on international markets. There is also significant potential in clean and renewable energy.

Development of this wealth offers Québec an undeniable opportunity to become richer and stimulate economic activity throughout its territory, while being environmentally responsible and sensitive to conservation of biodiversity.

It also offers the government significant leverage to foster the development of northern communities, both aboriginal and non-aboriginal.

2.2 Sustainable development of northern communities

Proximity to resources is a definite advantage for northern regions. The government intends to encourage their development.

At the same time, the government intends to put communities at the heart of northern development, ensuring that public needs are met, in particular regarding housing, services for the elderly and sports and recreation infrastructure.

Lastly, through its investments, in particular in worker training and transportation infrastructure, the government will foster diversification of Northern Québec's economy, which will help mitigate the communities' exposure to resource markets' volatility.

2.3 Northern development: a priority

With the Economic Policy – Putting Jobs First, the government has taken additional steps for responsible development of Northern Québec, development that is sensitive to the needs of local populations.

Northern development: a strategic element of the Economic Policy – Putting Jobs First

Northern development is a strategic element of the Economic Policy – Putting Jobs First.

Social and community development

Communities are at the heart of northern development. The development of the North must better respond to the social needs of the people who live there.

To maximize spinoffs for all local communities and for Quebecers as a whole, the economic and social development potential of the northern development territory must be promoted responsibly.

Accordingly, the government will adopt an approach that is sensitive to the environment and to the people who live in the northern development territory.

After having already announced the creation of new daycare spaces, invested in new housing and services for seniors and in sports and recreation facilities, the government plans, as part of the Economic Policy – Putting Jobs First:

- the creation of an $8 million northern development initiative fund;
- investments of almost $20 million to train skilled workers in Northern Québec and diversify the know-how of local populations;
- funding of $7.6 million to foster the economic diversification of northern regions by developing the tourism industry.

Responsible development of Northern Québec's infrastructure

It is also important to ensure ongoing and predictable investments that are necessary for the development of the North.

Accordingly, the government is continuing to develop public infrastructures essential for the territory's economic and social development. The policy stipulates:

- investments of $100 million, along with Hydro-Québec, to repair the James Bay Road;
- funding of up to $20 million for a pre-feasibility study on the construction of a railway link to transport ore from the Labrador Trough in particular;
- financial support for Stornoway Diamonds (Canada) to build a new shared access airfield in the Otish Mountains region.

2.4 The Fonds du développement nordique

The Fonds du développement nordique is a major tool for funding northern development.

— This fund is financed mainly by a portion of the tax spinoffs attributable to investments carried out in the northern territory, in addition to Hydro-Québec's contributions.

— Contributions that may be required of public and private partners can be added to the fund.

The funding allocation of the Fonds du développement nordique amounting to $2.3 billion over 25 years will help fund initiatives throughout the northern development territory. Accordingly, this allocation will in particular enable the completion of infrastructures for investments of roughly $900 million.

Funding allocation of the Fonds du développement nordique

An allocation that reflects economic activity in the territory

The funding allocation of the Fonds du développement nordique is determined taking into account the tax spinoffs attributable to investments made in the northern development territory for the development of natural resources and the building of public infrastructures.

This allocation is adjusted annually to take changes in projects underway or planned into account as well as the spinoffs stemming from them.

- Accordingly, when conditions are favourable, larger amounts may be allocated to the fund. On the other hand, when economic activity is below expectation, the allocation to the fund must be adjusted downward.

The approach followed in setting the Fonds du développement nordique's allocation exposes it to resource price volatility. Consequently, the amounts made available to the Fund must be used judiciously.

❑ New funding allocation for the period 2013-2018

The government has reviewed the tax spinoffs resulting from economic activity in the northern development territory.

On the basis of this review, the government has set the 2013-2018 funding allocation of the Fonds du développement nordique. On the basis of the investments approved, the tax spinoffs to be allocated to northern development should reach $2.1 billion over the period 2011-2035.

Over the next five years, the tax revenues the government will allocate to the Fonds du développement nordique will reach $362.4 million. These revenues will be supplemented by, in particular, contributions by Hydro-Québec totaling $50 million. In all, the revenues allocated to the Fonds du développement nordique over the period 2013-2018 will amount to $418.5 million.

TABLE E.6

Funding allocation of the Fonds du développement nordique – November 2013
(millions of dollars)

	Real	New funding allocation, 2013-2018						
	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	Total, 5 years	Total, 25 years
Tax revenue	45.0	46.0	63.0	83.2	85.2	84.9	362.4	2 063.3
Contributions by Hydro-Québec[1]	10.0	10.0	10.0	10.0	10.0	10.0	50.0	250.0
Other revenue	0.6	1.1	1.2	1.1	1.2	1.5	6.1	26.4
TOTAL - REVENUE	**55.6**	**57.2**	**74.2**	**94.3**	**96.4**	**96.4**	**418.5**	**2 399.6**

Note: Totals may not match due to rounding.
(1) The amount paid by Hydro-Québec as of 2017 is set by the government.

Spinoffs included to set the funding allocation of the Fonds du développement nordique

The tax spinoffs for the funding allocation of the Fonds du développement nordique are estimated on the basis of investment projects currently underway or planned in the northern development territory. Only those investments triggered after the fund's creation are included in the calculation of spinoffs.

Accordingly, $21.4 billion of investments for the period 2011-2035 have been identified compared with $29.6 billion of investments in the 2012-2013 budget. The decrease is attributable to investments by Hydro-Québec because:

- investments included are limited to those that will be completed by 2035;
- some investments have been deferred beyond 2035 because of surplus electricity on the market and low export prices.

Over the period as a whole, private investments by the mining sector are maintained.

Moreover, to proceed with caution, for the purposes of calculating tax spinoffs, of the $21.4 billion in projected investments, $18.3 billion has been retained, i.e.:

- $12.1 billion for mining projects;
- $5.2 billion of the $8.3 billion for Hydro-Québec's projects(1);
- $1.0 billion for public infrastructure projects.

On the basis of the economic activity resulting from these investments in the northern development territory, the tax spinoffs that will be allocated to the fund should reach $2.1 billion(2) over the period 2011-2035.

Allocation of tax spinoffs resulting from new activity in the northern development territory
(millions of dollars)

	Situation as at the 2012-2013 budget	November 2013 update
Period 2011-2035		
Investments associated with projects underway or planned projects	29 600	21 350
Investments retained for the funding allocation of the Fonds du développement nordique	29 600	18 250
Tax spinoffs allocated to the Fonds du développement nordique*	2 414	2 063
Tax spinoffs – 5 years	**2012-2017**	**2013-2018**
Funding allocation of the Fonds du développement nordique	374	362

* The estimate for the November 2013 update is based on more detailed surveys, in particular regarding the financial parameters of mining projects. The inclusion of this new information explains why the drop in spinoffs is not proportional to the drop in investments.

(1) Projects representing $3.1 billion and that are planned will be reassessed on the basis of changes in mining investments in Northern Québec and future electricity needs.
(2) Taking into account the likelihood of projects being carried out.

❑ Investments funded by the Fonds du développement nordique

Over the next five years, the Fonds du développement nordique will fund investment in excess of $897.9 million. These investments will total $954.6 million over 25 years and, in particular, will help support:

— repair of the James Bay Road and Highway 389 between Baie-Comeau and Fermont;

— extension of Highway 167 towards the Otish Mountains and of Highway 138;

— a pre-feasibility study on the construction of a railway link to transport ore from the Labrador Trough in particular;

— construction of a multipurpose centre in Sept-Îles and repair of the Chibougamau centre;

— acquisition and arrangement of a modular and mobile metallurgy school based in Chibougamau.

TABLE E.7

Investments funded by the Fonds du développement nordique
(millions of dollars)

	Real	Forecasts						
	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	Total, 5 years	Total, 25 years
INVESTMENTS								
Transportation Infrastructure	13.0	155.6	152.5	176.5	216.2	100.8	801.7	836.7
Construction of social housing in Nunavik (300 units)	18.5	17.6	21.7	21.7	0.0	0.0	61.0	79.5
National parks	0.0	5.1	5.4	3.9	1.4	0.2	15.9	19.1
Vocational training – Community development	0.0	2.2	16.5	0.7	0.0	0.0	19.4	19.4
TOTAL	**31.5**	**180.5**	**196.1**	**202.8**	**217.5**	**101.0**	**897.9**	**954.6**

Note: Totals may not match due to rounding.

❑ The financial framework of the Fonds du développement nordique

Forecast expenditures of the Fonds du développement nordique amount to $406.4 million over the next five years.

TABLE E.8

Financial framework of the Fonds du développement nordique
(millions of dollars)

	Real	New allocation, 2013-2018						
	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	Total, 5 years	Total, 25 years
REVENUE	**55.6**	**57.2**	**74.2**	**94.3**	**96.4**	**96.4**	**418.5**	**2 339.6**
EXPENDITURE								
Debt service	0.0	0.8	12.1	15.6	30.4	70.8	129.9	1 325.6
Spending on housing[1]	0.0	5.6	33.0	39.1	7.5	7.8	93.0	259.9
Impact of the Stornoway loan[2]	18.7	37.0	2.6	2.6	0.0	0.0	42.3	60.7
Priority initiatives	2.8	20.0	26.1	26.6	27.0	26.0	125.6	618.4
– Underway or announced	1.8	9.0	5.2	5.2	4.4	0.0	23.8	25.6
• *Fonds d'initiatives au développement nordique*	0.0	2.0	2.0	2.0	2.0	0.0	8.0	8.0
• *Lower transportation costs in Nunavik*[3]	1.8	3.1	0.0	0.0	0.0	0.0	3.1	4.9
• *Tourism north of the 49th parallel*	0.0	3.9	3.2	3.2	2.4	0.0	12.7	12.7
– Other priority initiatives[4]	1.0	11.0	20.9	21.4	22.6	26.0	101.9	592.9
Secrétariat au développement nordique[5]	0.1	3.1	3.1	3.1	3.1	3.1	15.6	72.4
TOTAL – EXPENDITURE	**21.6**	**66.6**	**76.9**	**87.1**	**68.0**	**107.8**	**406.4**	**2 337.1**
BALANCE	**33.9**	**-9.4**	**-2.7**	**7.2**	**28.4**	**-11.4**	**12.1**	**2.5**

Notes: Totals may not match due to rounding.
The financial framework of the Fonds du développement nordique is based on information available as at November 25, 2013.

(1) Includes the financing of operating deficits of housing corporations and the financing of the home ownership and residential renovation program in the Kativik region covered by the Fonds du développement nordique.
(2) Includes the allowance for losses on financial initiatives.
(3) Does not correspond to the total cost of the initiative, but only the portion financed by the Fonds du développement nordique.
(4) Includes in particular spending relating to a pre-feasibility study on the construction of a railway link and spending relating to the processing of environmental approval applications.
(5) Also includes the amounts required to manage the Fonds du développement nordique.

3. SOLIDARITY: AN ASSET THAT ENRICHES QUÉBEC

Solidarity is an asset that makes Québec richer and in which all Quebecers take pride. It is one of the four pillars of the government action program.

To bolster this solidarity, the Premier of Québec released the orientation and initiative paper last October 30: *La solidarité : une richesse pour le Québec*, which sets out an innovative vision of solidarity at the core of the government's overall action.

At the same time, she also announced the implementation of numerous structuring measures stemming from this wide-ranging plan.

❑ An innovative vision

The vision the government is laying before Quebecers is that of sustainable solidarity. Sustainable solidarity must take into account the interdependence of social, economic, cultural and territorial factors.

For the government, sustainable solidarity is based on three balances that must be maintained, namely:

— the balance between solidarity and prosperity;

— the balance between solidarity and responsibility;

— the balance between today's solidarity and tomorrow's.

This innovative vision makes it possible to take a comprehensive approach to various factors that must be considered more than ever if a society with solidarity at its core is to be built on a sustainable basis.

❑ Three orientations

Starting from this innovative vision, the government is taking ambitious and concrete action in three directions:

— The government is acting at the level of individuals to improve living conditions, increase labour market participation, foster social inclusion and support families and children.

— The government will provide more support for those who help, by supporting their action and contributing to the improvement of conditions in which these persons, groups and businesses provide this help.

— The government is preparing for the future, by making the public aware of certain crucial issues, by acting upstream and emphasizing everyone's participation and consultation.

3.1 Promising new initiatives

The major new initiatives announced at the unveiling of the orientation paper include the following three measures:

— improved funding for financial assistance to single persons receiving social assistance;

— more government funding for the mission of community organizations;

— The Un Québec fort de son immigration action plan.

❑ Improved funding for financial assistance to single persons receiving social assistance

To raise the disposable income of single persons without work constraints and receiving social assistance, additional financial assistance of $50 per month by 2017 will be granted to recipients not already covered by a shelter assistance program and who have been recipients for six months or more.

The benefit will be raised gradually. The first increase of $20 per month will take effect February 1, 2014. Additional increases of $10 per month will apply as of January 1, 2015, January 1, 2016 and January 1, 2017.

Almost 60 000 people will benefit from this measure, representing an investment of $71.4 million by 2017.

❑ The Un Québec fort de son immigration action plan

The Un Québec fort de son immigration action plan will increase the supply of full-time francization courses and promote existing government services.

To facilitate the integration of immigrants, partnerships will be formed with the regions and employers. Under the action plan, francization services will be diversified to better meet existing and future needs.

The government is investing almost $60 million from now to 2017 in the new action plan, including an additional $13 million for francization.

❑ More government funding for the mission of community organizations

Community organizations are actively involved in assisting those who are vulnerable. Accordingly, they provide assistance for employment and continuing training, literacy, efforts to combat dropping out of school as well as various initiatives to improve housing conditions.

To support these organizations, the government is increasing funding for community organizations by $54 million annually. This additional funding will be provided as of 2014-2015. From now until 2017 the government will therefore invest $162 million in supporting community organizations to assist those who help.

3.2 Financial framework

Over the next three years, the government will allocate $318.0 million to fund the new solidarity initiatives.

These new investments will require additional spending of $263.6 million, funded from program spending growth objectives. They will amount to:

— $79.9 million in 2014-2015;

— $88.6 million in 2015-2016;

— $95.2 million in 2016-2017.

❑ Funding of the new initiatives

TABLE E.9

Solidarity: an asset that enriches Québec
Financial impact of new initiatives announced
(millions of dollars)

	2013-2014	2014-2015	2015-2016	2016-2017	Total
Improved financial assistance for single persons receiving social assistance	–2.4	–16.0	–23.3	–29.7	–71.4
Un Québec fort de son immigration action plan	–9.7	–15.0	–16.6	–15.7	–57.0
Oversight of working conditions of domestic workers	—	—	—	—	—
Oversight of temporary employment agencies	—	—	—	—	—
Launch of a societal program to combat prejudice towards disadvantaged and vulnerable persons	–0.3	—	—	—	–0.3
Improved support for integration of handicapped children in daycare services	—	–2.0	–2.0	–2.0	–6.0
Improvement of services of community drop-in daycare centres	—	–0.9	–1.0	–1.1	–2.9
Support for the deployment of community education initiatives for healthy eating	—	–2.0	–3.0	–3.0	–8.0
Rise in government funding for community organizations	—	–54.0	–54.0	–54.0	–162.0
Consultations on the government action plan regarding community and volunteer action	—	—	—	—	—
Implementation of a program to acquire and renovate community-use immovables	—	–3.5	–3.3	–3.4	–10.2
Improvement of community working conditions (group insurance, pension plan, prevention mutual)	—	–0.3	—	—	–0.3
Total	**–12.4**	**–93.6**	**–103.2**	**–108.9**	**–318.0**
Sums already funded	**12.4**	**13.7**	**14.6**	**13.7**	**54.4**
Financial impact	**—**	**–79.9**	**–88.6**	**–95.2**	**–263.6**

Note: Totals may not match due to rounding.

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